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HeartSTAT Technology, Inc.
Form 10KSB
October 31, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

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

For the fiscal year ended December 31, 2004.

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

For the transition period from _____ to _____

Commission file number: 0-50993

HEARTSTAT TECHNOLOGY, INC.
(Name of small business issuer in its charter)

DELAWARE 20-1680252
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

530 WILSHIRE BLVD. #304 SANTA MONICA, CA 90401
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (310) 451-7400

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:
COMMON STOCK, \$0.001 PAR VALUE
(Title of class)

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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is 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.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State issuer's revenues for its most recent fiscal year: NIL

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days: \$690,144.50 AS OF SEPTEMBER 30, 2005

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 48,402,887 AS OF SEPTEMBER 30, 2005

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acquisition of Chasen's did not materialize. It was believed that the new name would allow the Company to better continue its software business development and technology operations and avoid any conflict with the trademarks and ownership of the name Chasen's.

On November 21, 2000, the Company changed its name to Tec Factory, Inc. and was planning to purchase Tec Factory Fort Lauderdale, LLC and Tec Factory Los Angeles, LLC from Web Capital Ventures, Inc. This transaction was not concluded. The Company had negligible operations between November 2000 and February 6, 2004.

On February 6, 2004, the Company entered into an agreement to purchase the HEARTSTAT CNBP/BF technology assets from several Interest Holders and on February 17, 2004 the Company

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amended its corporate name to HEARTSTAT Technology, Inc. in anticipation of the final closing of the agreement.

On March 18, 2004, the Company concluded the February 6, 2004 agreement to purchase the technology referred to herein as the "HEARTSTAT CNBP/BF". The HEARTSTAT CNBP/BF Technology (the "Technology") consists of patents and technology for a non-invasive monitoring of blood flow, perfusion and other cardiovascular and heart measures. There were no stock splits or other changes to the Company securities effected at the time of this name change.

The Agreement for the Purchase of Assets, dated February 6, 2004, provided for the issuance of 38,000,000 shares of common stock plus two royalty agreements, as consideration for the purchase for a 100% ownership of the HeartSTAT CNBP/BF Technology from a number of Interest Holders, which included the Inventor and a number of investors that have been instrumental and partially responsible for advancing the HEARTSTAT CNBP/BF technology to its current status. In addition, the Company assumed \$20,000 of notes payable. At February 6, 2004, the Company's former board of directors and shareholders approved the terms of the Agreement for the Purchase of HEARTSTAT CNBP/BF Technology Assets. This agreement was accounted for as an arms length transaction as none of the Interest Holders that received stock in this transaction in exchange for their ownership of the HEARTSTAT CNBP/BF Technology assets were previous shareholders, directors or officers HEARTSTAT Technology, Inc. prior to the completion of the transaction.

As part of the Agreement, the Company agreed to a Commercialization Partnership Agreement (Exhibit B to the Agreement) with the Interest Holders whereby the Interest Holders agreed that Ted Russell, the inventor of the technology, could exclusively license in perpetuity the HEARTSTAT CNBP/BF Technology for the purpose of financing and concluding product commercialization activities if the Company were to fail to raise at least \$2,500,000 of net proceeds for product development by September 6, 2005. The Company was given a 90-day period to cure the financing inadequacy to prevent the license from being effected. The terms of the license would include a provision that Mr. Russell, or an independent entity would repay the Company for any actual investment capital received at the rate of 20% of any net income of Mr. Russell's independent commercial operations of producing derivative products using the HeartSTAT CNBP/BF Technology. In addition, the Company would receive a royalty on net revenues of such derivative products as follows:

1. A royalty equal to 3% of net revenues if at least \$1.3 million of investment capital was received

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2. A royalty equal to 2% of net revenues if at least \$650,000 but less than \$1.3 million of investment capital was received, or
3. A royalty equal to 1% of net revenues if less than \$650,000 of investment capital was received.

On August 15, 2005, due to the Company's inability to raise the required \$2,500,000, Mr. Ted Russell and HeartSTAT, Inc. executed an Asset Transfer Agreement with the Company for the sale of the Technology to HeartSTAT, Inc., a private company controlled by Mr. Ted Russell, to permit Mr. Russell to continue the private funding of and commercialization of the Technology as a private entity. The Company will receive the following in exchange for the assets:

- o Mr. Russell and the Hull Family will return 20,000,000 shares of the Company's common stock to treasury, which accounts for 41.3% of the issued and outstanding stock in the company.
- o HeartSTAT, Inc. will issue 98,207 shares of stock (representing 8.7% equity interest in HeartSTAT, Inc.) and a \$70,000 promissory note.
- o Mr. Russell and HeartSTAT, Inc. will fully release the Company from payment of all amounts owed to them.

Mr. Russell and Mr. Pat Maley resigned immediately prior to the filing of this report as officers and directors of the Company.

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Upon completion of this transaction, the Company will continue its technology business development focus with its equity position in HeartSTAT, Inc. and with future operations.

EMPLOYEES

The company currently has only one full time employee and one part time executive employee.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently has its principal executive offices located at 530 Wilshire Blvd, Suite 304, Santa Monica, CA 90401. This space represents a portion of the 670 square feet of office space and is subleased from FutureVest, Inc. (Formerly Diamond WorldWide)

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to, and its property is not the subject of, any pending legal proceedings.

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

None.

PART II

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ITEM 5. MARKET PRICE FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Our common stock has been trading on the over-the-counter pink sheet ("Pink Sheets") under the symbol "HSTA" effective March 1, 2004. The common stock was first listed on June 9, 1998 under the symbol "PUBS" and traded under that symbol until April 5, 1999. From April 6, 1999 to August 9, 1999, the stock traded under the symbol "CIIT". From August 10, 1999 to November 27, 2000 the stock traded under the symbol "TMDN" and from November 28, 2000 to February 29, 2004 the stock traded under the symbol of "TECF". The following table sets forth the range of high and low bid quotations for each fiscal quarter for the last two fiscal years. These quotations reflect inter-dealer prices without retail mark-up, mark-down, or commissions and may not necessarily represent actual transactions.

| FISCAL QUARTER ENDING | HIGH BID | LOW BID |
|-------------------------|----------|---------|
| June 30, 2003..... | \$ 0.01 | \$ 0.01 |
| September 30, 2003..... | \$ 0.01 | \$ 0.01 |
| December 31, 2003..... | \$ 0.01 | \$ 0.01 |
| March 31, 2004..... | \$ 0.60 | \$ 0.60 |
| June 30, 2004..... | \$ 0.70 | \$ 0.70 |
| September 30, 2004..... | \$ 0.65 | \$ 0.65 |
| December 31, 2004..... | \$ 0.50 | \$ 0.50 |
| March 31, 2005..... | \$ 0.11 | \$ 0.11 |
| June 30, 2005..... | \$ 0.06 | \$ 0.06 |

On September 30, 2005, the closing price for the common stock was \$0.05

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As of September 2, 2005, there were 944 record holders of our common stock. Since our inception, no cash dividends have been declared on our common stock.

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

OVERVIEW

The acquisition of the HEARTSTAT CNBP/BF Technology assets was accounted for as an acquisition of assets as opposed to a reverse merger due to the fact that there was organized operating company that owned or operated the HEARTSTAT CNBP/BF system in the past 2 years while the technology was in its R&D phases. (FOR MORE INFORMATION ON THE ACCOUNTING POLICIES USED PLEASE CONSULT THE NOTES TO THE FINANCIAL STATEMENTS). A predecessor sensing part of the system used for the HEARTSTAT CNBP/BF technology assets had a number of investors, that invested in this predecessor part of the system over the past 10 years.

During the fiscal year ended December 31, 2004, the Company conducted only limited operations, which were focused on obtaining financing to develop the acquired Technology. Such efforts included the filing of a registration statement under the Securities Exchange Act of 1934, as management believed that being a reporting company would enhance financing opportunities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which

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have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to impairment of long-lived assets. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions; however, we believe that our estimates, including those for the above-described items, are reasonable.

IMPAIRMENT OF LONG-LIVED ASSETS.

Our long-lived assets include property, equipment and goodwill. We assess impairment of long-lived assets whenever changes or events indicate that the carrying value may not be recoverable. In performing our assessment we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. If these estimates change in the future we may be required to record impairment charges against these respective assets.

RESULTS OF OPERATIONS

FISCAL YEARS ENDED DECEMBER 31, 2004 AND 2003.

We operated as Tec Factory for the fiscal year ended December 31, 2003. During that year, the Company had negligible operations. We completed the acquisition of the Technology in the first quarter of 2004. We had debited goodwill in the amount of \$58,000 to account for the acquisition of the Technology, which amount consisted of \$38,000 for the issuance of 38,000,000 shares at \$0.001 per share and the assumption of \$20,000 of notes payable.

We have not yet generated revenues. Operating expenses consisted of payroll and related expenses for executive, finance and administrative personnel, recruiting, professional fees and other general corporate expenses as well as payroll and related expenses for development personnel and

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consultants. Operating expenses were \$222,003 for fiscal 2004, as compared to \$21,000 for fiscal 2003 due to a \$58,000 impairment charge in 2004 and the increased level of activity in 2004. The Company performed its annual impairment test of its existing goodwill and concluded that an impairment existed at December 31, 2004. Factors considered led to a substantial doubt by the Company to recover its investment due to a lack of certainty in future cash flows calculated on an undiscounted basis. In addition, based on the Company's fair market value estimate, the related write-down was required to record the intangible asset to its fair market value.

Accordingly, the net loss was \$230,818 for fiscal 2004, as compared to \$21,000 for fiscal 2003.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2004, the Company had a working capital deficit of \$25,752, as compared to a working capital deficit of \$42,000 at December 31, 2003. The Company had no cash at December 31, 2004, but maintains an agreement

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with FutureVest, Inc. (formerly Diamond WorldWide) a related company, to continue to finance operations.

The Company has been funded and continues to be funded by FutureVest, Inc. (formerly Diamond WorldWide), which will continue to fund the operating and development expenses of the Company. All monies advanced to the Company by Diamond WorldWide accrue interest at 8% per annum. At December 31, 2004, \$184,566 of long-term debt and \$7,493 of interest was owed to FutureVest, Inc.

PLAN OF OPERATION

The Company will be changing its name and pursuing other opportunities in the area of technology development. For the near term, the Company will be dependent upon financing provided by its shareholders and related parties to sustain operations.

ITEM 7. FINANCIAL STATEMENTS

See the pages beginning with page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Bongiovanni & Associates was appointed as our principal accountants as of March 15, 2004. On August 15, 2005 our CEO and Board of Directors approved Bongiovanni and Associates to complete the audit for year end December 31, 2004. Bongiovanni & Associates also completed the audited financial statements for the fiscal year ended December 31, 2002 and December 31, 2003. During the three most recent fiscal years and the subsequent interim period, neither we nor anyone on our behalf consulted Bongiovanni & Associates regarding the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements.

Prior to the engagement of Bongiovanni and Associates the company did not have an independent auditor of record.

ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this annual report, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management. Based upon that evaluation, the

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Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There have been no changes in the Company's internal controls or in other factors, which could significantly affect internal controls subsequent to the date it carried out its evaluation. It was management's assessment that the delay in filing this report was due primarily to the Company's change in plans with respect to its business operations.

Disclosure controls and procedures and other procedures are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange

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Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

Our executive officers and directors are:

| NAME | AGE | POSITION |
|-------------------|-----|--------------------------------------|
| Garrett K. Krause | 38 | Chief Executive Officer and Director |

Our directors are elected annually by our shareholders and our officers are appointed annually by our board of directors. Any vacancies in our board to be are filled by the board itself. Set forth below is a brief description of the recent employment and business experience of our sole executive officer and director.

GARRETT K. KRAUSE, CHIEF EXECUTIVE OFFICER& DIRECTOR

As of August 15, 2005, Garrett K. Krause became a director and was elected as our Chairman and Chief Executive Officer. Since 1992, Mr. Krause has been the Managing Director of eAngels Equity, LLC, an angel investor network, based in Miami, Florida. eAngels Equity, LLC participates in the investment in the real estate, financial services, media, entertainment, and technology industries. Mr. Krause studied finance at University of Calgary before starting his private investment and entrepreneurial ventures.

CONFLICTS OF INTEREST

Members of our management are associated with other firms involved in a range of business activities. Consequently, there are potential inherent conflicts of interest in their acting as officers and directors of our company. Insofar as the officers and directors are engaged in other business activities, we anticipate they will devote only a minor amount of time to our affairs.

Our officers and directors are now and may in the future become shareholders, officers or directors of other companies, which may be formed for the purpose of engaging in business activities similar to us. Accordingly, additional direct conflicts of interest may arise in the future with respect to such individuals acting on behalf of us or other entities. Moreover, additional conflicts of interest may arise with

respect to opportunities which come to the attention of such individuals in the performance of their duties or otherwise. Currently, we do not have a right of first refusal pertaining to opportunities that come to their attention and may relate to our business operations.

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Our officers and directors are, so long as they are our officers or directors, subject to the restriction that all opportunities contemplated by our plan of operation which come to their attention, either in the performance of their duties or in any other manner, will be considered opportunities of, and be made available to us and the companies that they are affiliated with on an equal basis. A breach of this requirement will be a breach of the fiduciary duties of the officer or director. If we or the companies with which the officers and directors are affiliated both desire to take advantage of an opportunity, then said officers and directors would abstain from negotiating and voting upon the opportunity. However, all directors may still individually take advantage of opportunities if we should decline to do so. Except as set forth above, we have not adopted any other conflict of interest policy with respect to such transactions.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, are required to file reports of ownership and changes in ownership with the Securities and Exchange Commission pursuant to Section 16(a) of the Securities Exchange Act of 1934. The following table sets forth reports that were not filed on a timely basis during the most recently completed fiscal year:

| REPORTING PERSON | DATE REPORT DUE | DATE REPORT FILED |
|-------------------|---------------------|-------------------|
| Ted W. Russell | Form 3 due 12/29/04 | 01/07/05 |
| Garrett K. Krause | Form 3 due 12/29/04 | 01/07/05 |
| James Hudson | Form 3 due 12/29/04 | 01/07/05 |

ITEM 10. EXECUTIVE COMPENSATION.

The following table sets forth information the remuneration of our chief executive officers for the last three completed fiscal years.

SUMMARY COMPENSATION TABLE

| NAME AND PRINCIPAL POSITION | ANNUAL COMPENSATION | | | LONG TERM COMP AWARDS | |
|-----------------------------|---------------------|-------------|------------|-----------------------------|------------------------------------|
| | YEAR | SALARY (\$) | BONUS (\$) | RESTRICTED STOCK AWARD (\$) | SECURITIES UNDERLYING OPTIONS (\$) |

James R. Hudson (1)