CERISTAR INC
Form 10KSB
April 14, 2004

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

FORM 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d)
OF
THE SECURITIES ACT OF 1934

For the fiscal year ended December 31, 2003

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

Commission File Number 001-16381

CeriStar, Inc.
(Name of small business issuer in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	87-0642448 (IRS Employer Identification No.)

50 West Broadway, Suite 1100, Salt Lake City, Utah 84101
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (801) 350-2017

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

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

Common Stock, par value $.001 per share
(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 [X] No [

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [ ]

Issuer's revenues for its most recent fiscal year were $430,630.

The aggregate market value of the voting stock held by non-affiliates of the Issuer as of March 31, 2004 was approximately $1,591,400 based on the closing price on that date on the OTC Bulletin Board.

On March 31, 2004, there were 8,004,450 shares of the issuer's common stock outstanding.

Transitional Small Business Disclosure Format: Yes [ ] No [X]

CERISTAR, INC.

Annual Report on Form 10-KSB
For the Fiscal Year Ended December 31, 2003

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This report contains trademarks and trade names that are the property of CeriStar, Inc. and its subsidiaries, and of other companies, as indicated.

PART I

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of the federal securities laws. These statements include those concerning the following: our intentions, beliefs and expectations regarding our future success and results; our operating results; our expectations regarding our revenues and customers; and our distributors and territorial expansion efforts. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially. For a detailed discussion of these risks and uncertainties, see the "Business" section of this Form 10-KSB.

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

ITEM 1. DESCRIPTION OF BUSINESS

Background

CeriStar, Inc. ("CeriStar" or the "Company") was incorporated in December 1999 in the State of Delaware. We are an Internet Protocol ("IP") Communication Services Provider, leading the convergence of voice, video and data by providing "Triple Play" communications services to residential, commercial and municipal concerns through reliable, fast and intelligent IP networks. Our current principal operations are related to providing residential subscribers with integrated voice, video and data communications services over Fiber-to-the-Premise ("FTTP"). These communications services include a robust IP telephony package (commonly referred to as "VoIP"), high-speed Internet connectivity, broadcast and IP entertainment services such as HDTV, video-on-demand, games-on-demand and security services. We also manage our quality of service ("QoS") and provide customer service and billing functions as well as integration, engineering and management support for our customer base and network.

On September 10, 2002, we entered into a forward triangular merger with Planet Resources, Inc., a Delaware corporation ("Planet"), in which all of our issued and outstanding common and preferred stock was exchanged for Planet's common stock with each of our Series A and B preferred stock being exchanged for ..757 shares of Planet's common stock and our existing common stock was exchanged for .322 shares of Planet's common stock (the "Merger"). Prior to the Merger, Planet had no operations for two years. On October 15, 2002, Planet Resources Inc. was renamed as CeriStar, Inc.

Market Opportunity

The convergence of voice, video and data in today's marketplace is being facilitated by the maturation of certain IP technologies, primarily Voice over IP ("VoIP"). VoIP allows voice communication to be "digitized" into data packets and transported over data networks, thereby allowing voice, as well as video and data, to be delivered efficiently over the same network. Traditionally, these services have been provided via multiple delivery systems and until recent years via separate service providers, e.g., traditional telephone vendors provided call termination over copper wires; television over broadcast antenna, encoded cable or satellite receivers; and data services over the Internet by Internet Service Provider's ("ISP's").

We believe that as IP technologies evolve many of the current differences between cable TV signals, phone transmissions and Internet data will converge until all broadband communications become IP-based, although there is no assurance that such results will occur. Further, to provide a truly converged network platform, bandwidth capacity and the capability to integrate, manage and deliver large amounts of data and signals to the end user with superior quality of service (QoS) is a key component. We believe that fiber optic cable will serve as the key component to achieve this goal.

According to the Fiber to the Home ("FTTH") Council, as of September 2003, there were 94 Optical Fiber Communities across 26 states in the United States with communities being passed by fiber. Industry estimates forecast overall residential fiber access (Fiber-to-the-Home or FTTx) to be made available to over more than 1 million North American homes in 2004 and is expected to increase to 26 million by 2008.

The smaller housing development market is of particular importance to us and other smaller businesses in this field, since such developments are less likely to be a target for early FTTx deployment and converged services from the larger industry players. As of March 2004, we are currently offering the Triple Play of integrated phone, video and Internet services over fiber networks to customers who are located in the State of Utah. Using our existing reference base of customers, we believe that we are positioned to emerge as a premier market player as mainstream adoption of converged IP network services occurs in the residential market, although no assurance can be made that such results will be the case.

A transition to a pure IP environment has important implications for all organizations, including, items such as:

- Reduced network infrastructure costs;

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- Lower IT capital costs;
- Reduction in cost to provide traditional moves/adds/changes to subscriber services;
- Reduction in complexity of network management;
- Reduced long distance telephony charges;
- Overall increase in productivity; and
- Reduces management and administrative costs.

While other competitors offer various components of IP Engineering (i.e., broadband, building controls and office applications) or even "bundled" communication services, we are among only a handful of providers that offer a complete converged services solution, or "all-in-one package" which creates a more efficient and technologically advanced home or business environment. This integrated service profile results in significant competitive advantage for the residential or commercial building developers and contains additional feature and cost advantages for subscribers.

Our Corporate Vision and Mission

Our mission is to be a leading provider of converged voice, video and data communications. We are working towards this goal by leveraging a thorough understanding of the suppliers, networks and technologies which, we believe, enable Triple Play networks and services for the future. Our current leadership is geared towards a result with tight integration of the operational dynamics and protocols of these new and emerging enabling technologies. Our future, through our current leadership believes that the following factors will help us reach our corporate goal:

- Exploit our understanding of current customer and market communications requirements;
- Leverage our extensive knowledge of the networks and technologies that are enabling Triple Play networks and services for the future;
- Strengthen our relationships with suppliers and partners who are delivering the needed core components for Triple Play networks;
- Draw upon and utilize the deep resources and experiences of our executive team and integrate those elements into a meaningful, customer driven services platform; and
- Deliver services in a timely and cost efficient manner, creating high quality and a value-rich environment for our current and prospective customers and partners.

Business Strategy

Our primary goals are to grow revenues, achieve profitability and maximize shareholder value. We believe that to achieve our goal of becoming a leading provider of Triple Play services, providing communications, applications and entertainment to our subscribers, we need to continually refine our core services and expand and offer additional services as technology and costs related to such additional services permit. We have identified certain key elements to increase our market presence and growth strategy, which include:

- Focus marketing efforts where they can be most effective. We currently market our services primarily to "Greenfield" residential housing developers where we are able to leverage our skills and size by reaching a larger number of subscribers through a single contact point;
- Speed the widespread adoption of IP converged communications by demonstrating its feasibility and benefits to developers, municipalities and end-user subscribers;
- Continually refine and develop our brand;
- Build shareholder value through innovation, operational efficiency and financial performance;
- Expand and refine our content offering;
- Expand our network model and services offering beyond our historical markets in the State of Utah by partnering and/or opening new offices in new regions in order to both increase revenues and improve profitability; and
- Make strategic acquisitions wherever possible.

IP Network Service Offerings

Our service offerings are integrated and delivered through systems that have been designed to create an open, converged platform within the community or enterprise LAN and to provide equivalent bandwidth for other licensed IP services. These systems guarantee the convergence and delivery of voice, computer data, and video services over the same "pipe" and also act as a gateway to all other service providers. We are able to deliver or manage the delivery of these services through relationships with leading carriers and "best of breed" service, application and content providers.

The following is a list of IP Enhanced products and services with the designated (A) available today, (F) in the future. We believe the items that are designated with an F should be available ranging from six months to two years.

Digital Packet TV	A	Outbound Calling to other VoIP Devices
Expanded Channel Line-Up	A	Inbound DID Based Calling
Pay-Per-View Television	A	Call Return
Video-on-Demand Services	A	Call Forwarding
Pay-per-View On-Demand	A	Call Waiting
High Definition TV	A	Caller ID
Digital Music Channels	A	Conference Calling
World Wide Web at TV	F	Speed Dial
Email at TV Control	F	Last Number Redial
Appliance at TV Control	F	Voice Mail
Gaming on Demand	A	Hosted IP Centrex Services
Interactive Gaming	A	Hosted IP Call Center
Wireless Access	A	Unified Messaging
WiFi Hot Spot Installation	F	Speech Enhanced Voice Services
WiFi access for Homes/Small Businesses	F	Find Me/Follow Me Services
WiFi access for Laptops and PDA Access	F	Video Conferencing
Hosted IP Telephone	F	Video Chat
Outbound Calling to PSTN Devices	A	Full Featured Video Conferencing
Secure Instant Messaging	F	Collaborative Work Space
Energy Management	A	

Telephone Services

Using the latest in fiber optic and IP technologies, we provide traditional voice telephony over IP (VoIP) and services such as Call Return, Call Forwarding, Call Waiting, Caller ID, Conference Calling, Speed Dial and Last Number Redial along with other unique features such as video conferencing. We offer full local and long distance service, utilizing managed Internet Protocol (IP) technology to deliver superior voice service with crystal clear connections.

High Speed Internet Access/Data

We currently provide Internet connectivity ranging from 128 kbps to 10 mbps on both the upstream and downstream and can provide up to 1gbps bandwidth within the LAN. Internet service includes POP3 e-mail, integrated calendaring, news and sports feeds.

Digital Packet Television (DPTV)

Our customers will enjoy the advantages of increased programming choices and advanced interactive services that greatly enhance their choices, convenience and control. We provide crystal clear digital video quality and home theatre quality audio as part of our television service to our customers. We currently offer more than 230 channels of local off-air, basic, premium movie, audio music channels, video-on-demand, near-video-on-demand, music-on-demand and pay-per-view events delivered as "Digital Packet Television (DPTV)". Our network also supports a migration to the new High Definition Television (HDTV) standards. Advanced interactive services allows customers to enjoy the comfort, control and convenience to answer their phone, check e-mail, fax documents, shop at their favorite stores and surf the Internet.

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Other Options and Services

- Wireless Internet connectivity for PDA's and/or laptops;
- Home security w/ remote monitoring;
- Remote temperature, lighting and access control.
- Physical Features
- Energy management
- Security;
- URL filtering; and
- Firewall and anti-virus applications.

Distribution Channels

Our distribution channels and potential customers can be categorized in the following categories:

- Business partners, such as real estate developers and building owners;
- Direct sales - "Greenfield" residential developments, existing residential neighborhoods and building owners;
- Service providers, such as MSO's content providers and equipment suppliers; and
- Strategic alliances, which include industry leaders, channel partners/re-sellers and universities and municipalities,

Competition

We face competition from larger, better capitalized companies. We compete directly with cable and satellite television providers, such as Comcast, EchoStar and DirecTV; traditional local and long distance POTS telephone providers, such as Qwest; newly-emerging VoIP telephony providers, such as

Vonage; and small and large ISP's, such as EarthLink and Mindspring. Many of these established companies have resources greater than ours and are direct competitors. We believe that we compete favorably with these and other entities in the smaller markets and especially in Greenfield developments on the basis of technology, customer service, and quality assurance. Our prices are expected to be generally lower and/or will include more features offering a better value package. In addition, our market emphasis permits us to make these advanced services available in underserved markets.

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Regulatory Matters

We are currently licensed as a Common Local Exchange Carrier ("CLEC") licensed with the Utah Public Utility Commission ("PUC") under certificate number 2389, but we do not offer traditional CLEC services.

As a CLEC, may be subject to certain Public Utility Commission and Federal Communications Commission rules and regulations for telephony services. However, we believe that since we provide our service using 100% IP Protocol, our VoIP services are not covered under current PUC and Federal Communications Commission ("FCC") regulation. Any proposed or enacted changes should only affect our voice services, but it is possible that new legislation in the future could also affect our data and video services.

We do not hold any domestic license with the FCC.

Presently, the FCC does not regulate companies that provide IP telephony services as common carriers or telecommunications service providers. Despite current laws, the FCC's potential jurisdiction over the Internet is broad because the Internet relies on wire and radio communications facilities and services over which the FCC has long-standing authority.

We have previously requested CLEC status in other states and territories of the United States, but do not presently intend to vigorously continue to pursue such additional CLEC licenses. A CLEC designation permits the resale of local telecommunications services.

Many states also impose various reporting requirements or require prior approval for transfers of control of certified carriers, corporate reorganizations, acquisitions of telecommunications operations, assignments of carrier assets, including subscriber bases, carrier stock offerings and incurrence by carriers of significant debt obligations. Certificates of authority can generally be conditioned, modified, canceled, terminated or revoked by state regulatory authorities for failure to comply with state law and the rules, regulations and policies of the state regulatory authorities. Fines and other penalties, including the return of all monies received for intrastate traffic from residents of a state, may be imposed for such violations. In certain states, prior regulatory approval may be required for acquisitions of telecommunications operations.

Currently, we do not believe we are subject to any state regulation with respect to our Internet related services. However, there can be no assurances that VoIP will not be subject to such regulations in the future. Additionally, we are not aware of any pending legislation that would have a material adverse affect on our operations.

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Most states have consumer protection laws that further define the framework within which our marketing activities must be conducted. We intend to comply fully with all laws and regulations; however, the constraints of federal and state restrictions could impact the success of direct marketing efforts and otherwise increase our costs of doing business.

Future Regulation

Due to the increasing popularity and use of the Internet, it is possible that additional laws and regulations may be adopted with respect to the Internet, covering issues such as content, privacy, access to adult content by minors, pricing, bulk e-mail, encryption standards, consumer protection, electronic commerce, taxation, copyright infringement, and other intellectual property issues.

We cannot predict the impact, if any, that future regulatory changes or developments may have on our business, financial condition, or results of operation. Changes in the regulatory environment relating to the Internet access industry, including regulatory changes that directly or indirectly affect telecommunication costs or increase the likelihood or scope of competition from regional telephone companies or others, could increase our operating costs, limit our ability to offer services and reduce the demand for our services.

As the law in this area develops, we could become liable for information carried on, stored on, or disseminated through our gateways, it may be necessary for us to take steps to reduce our exposure to this type of liability through alterations in our equipment, expanded insurance coverage or other methods. This may require us to spend significant amounts of money for new equipment or premiums and may also require us to discontinue offering certain of our products or services.

In a report to Congress in 1998, the FCC stated its intention to consider whether to regulate voice and fax telephony services provided over the Internet as "telecommunications" even though Internet access itself would not be regulated. The FCC is also considering whether such Internet-based telephone service should be subject to universal service support obligations or pay carrier access charges on the same basis as traditional telecommunications companies.

A governmental body could impose further sales and other taxes on the provision of our services, which could increase the costs of doing business. A number of state and local government officials have asserted the right or indicated a willingness to impose taxes on Internet-related services and commerce, including sales, use and access taxes. To date, no such laws have become effective. We cannot accurately predict whether the imposition of any such taxes would materially increase our costs of doing business or limit the services which we provide. It may be possible to pass on some of these costs to the consumer and continue to remain competitive.

Employees

As of March 31, 2004, we had 12 employees and two independent contractors. All of our employees are full-time. Of the 12 employees employed by us, five are in service operations, two are in sales and marketing and five are in general administration. One independent contractor provides sales and marketing services to the Company on a month-to-month basis and one provides technical engineering service. None of our employees are represented by a labor union or subject to a collective bargaining agreement. We have never experienced a work stoppage and consider our employee relations to be good.

ITEM 2. DESCRIPTION OF PROPERTIES

Our corporate headquarters are located in Salt Lake City, Utah. We currently lease on a month-to-month leases approximately 2,750 square feet of office space for a month rent with all additional charges equal to $1.29 per square foot per month or approximately $3,500 per month . We believe that our facilities are adequate to meet our requirements through the end of fiscal year 2004.

ITEM 3. LEGAL PROCEEDINGS

On March 4, 2004, a lawsuit captioned Wired, L.C. v. CeriStar, Inc. was filed in the Third Judicial District Court, Salt Lake County, State of Utah., Case No. 040904512 (the "Wired Litigation"). Wired alleges a breach of contract under an agreement that we entered into with Wired. We believe that the case is without merit and in our response filed on March 24, 2004, we denied any breach and asserted various affirmative defenses along with a counterclaims against Wired for declaratory judgment. We will continue to vigorously defend our position; however, we could be forced to incur material expenses if the litigation continues and if result is against us, our business could be harmed.

Other than the Wired Litigation, we do not have any legal liabilities, past or present that could cause material harm to our shareholders and us in the future of which our management is aware.

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

During the fiscal year ended December 31, 2003, no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

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PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Market Information

Our shares of common stock currently trade on the OTC Bulletin Board under the trading symbol "CRTI.OB". Upon our merger with Planet, our stock was traded under the trading symbol "PLNT.OB." until it was changed to our current trading symbol on September 15, 2002. The following table sets forth the range of high and low closing quotations for the first quarter of fiscal year 2004 and each fiscal quarter for the last two fiscal years ending December 31, 2003 and 2002 as reported by the OTC Bulletin Board. The quotes represent inter-dealer prices without adjustment or mark-ups, mark-downs or commissions and may not necessarily represent actual transactions. The trading volume of our securities fluctuates and may be limited during certain periods. As a result of these volume fluctuations, the liquidity of an investment in our securities may be adversely affected.

Year	2004	2003	2003	2003	2003	2002	2002	2002
Quarter	First	Fourth	Third	Second	First	Fourth	Third	Second

High	$0.46	$0.58	$1.95	$0.95	$1.55	$2.25	$3.10	N/A
Low	$0.15	$0.26	$0.47	$0.48	$0.55	$1.05	$1.30	N/A

On March 31, 2004, the final quoted closing price as reported by the OTC Bulletin Board was $0.25 for each share of our common stock.

Holders of Record

As of March 31, 2004, there were 8,004,450 shares of Common Stock outstanding, held by approximately 1,600 record holders.

Dividends

We have never paid a cash dividend on our common stock nor do we anticipate paying cash dividends on our common stock in the near future. It is our present policy not to pay cash dividends on the common stock but to retain earnings, if any, to fund growth and expansion. Under Delaware law, a company is prohibited from paying dividends if the company, as a result of paying such dividends, would not be able to pay its debts as they become due, or if the company's total liabilities and preferences to preferred shareholders exceed total assets. Any payment of cash dividends on the our common stock in the future will be dependent on the Company's financial condition, results of operations, current and anticipated cash requirements, plans for expansion, as well as other factors the Board of Directors deems relevant. At the time of the merger with Planet, both CeriStar's common and preferred shares were converted to Planet's common stock. With the change of Planet's name to CeriStar this common stock is referred to as CeriStar's New Common Stock.

CeriStar is also registered on the Berlin Stock Exchange.

There were no recent sales of unregistered securities.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included in Item 7 of this Form 10-KSB. This discussion contains forward-looking statements. These statements are based on our current expectations, assumptions, estimates and projections about our business and our industry, and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's results, levels of activity, performance or achievement to be materially different from any future results, levels of activity, performance or achievements expressed or implied in or contemplated by the forward-looking statements. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of selected factors, including those set forth below under "Risk Factors Affecting Operations and Future Results."

Company and Industry Overview

CeriStar, incorporated in December of 1999 in Delaware, provides converged voice, video and data services - the "Triple Play" - to residential, commercial and municipal concerns through reliable, fast and intelligent IP networks. The Company's current principal offering is to provide residential subscribers with integrated voice, video and data communications services over

Fiber-to-the-Premise (FTTP). These communications services include a robust IP telephony package (VoIP), high-speed Internet connectivity, broadcast and IP entertainment services such as HDTV, video-on-demand, games-on-demand, as well as security services. CeriStar also manages the quality of service (QoS) and provides customer service and billing, as well as integration, engineering and management support for its customer base and for its network.

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

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

In 2003, the Company moved from development stage into that of an operating company and have acquired significant assets required to conduct our business. While we believe that our service capability enables us to compete effectively in the Triple Play services market, there can be no assurances that any benefit will result from these activities.

We received limited revenues and incurred expenses in excess of revenues during our development in 2003.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and disclosures at the date of the financial statements. On an ongoing basis, we evaluate our estimates, including those related to accounts receivable, inventories, other intangibles and income taxes. We use authoritative pronouncements, historical experience and other assumptions as the basis for making estimates. Actual results could differ from those estimates.

We identified our most critical accounting policies to be related to revenue recognition, asset valuation and accounting for stock options. A complete list of our accounting policies is contained in Note 1 to the notes of the consolidated financial statements.

1. Revenue Recognition

Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectibility is reasonably assured. Payments received prior to performance are recorded as deferred revenue. The company enters into long-term service contracts in which it receives payments for initial equipment installation. These revenues are typically deferred over the life of the service term. Equipment installations relating to residential monthly contracts are recognized when installed.

2. Allowance for Doubtful Accounts

Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides on-going credit evaluations of its customers and maintains allowances for possible losses which, when realized, have been within the range of management's expectations. Management assesses its estimates of uncollectible accounts based on age of receivables and direct negotiations with its customers if disputes arise.

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3. Impairment of Long-lived Assets

We review our long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. We evaluate, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. We use an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life of in measuring whether the assets are recoverable.

4. Accounting for Stock-based Compensation

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

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

5. Recent Accounting Pronouncements

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN No. 45). FIN No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, "Accounting for Contingencies." FIN No. 45 also requires us to make significant new disclosures about guarantees. The disclosure requirements of FIN No. 45 are effective for the first quarter of fiscal year 2003. FIN No. 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Our previous accounting for guarantees issued prior to the date of the initial application of FIN No. 45 will not be revised or restated to reflect the provisions of FIN No 45. The adoption of FIN No. 45 did not have a material impact on our consolidated financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123," which is effective for all fiscal years ending after December 15, 2002. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation under SFAS No. 123 from the intrinsic value based method of accounting prescribed by APB Opinion No. 25. SFAS 148 also changes the disclosure requirements of SFAS 123, requiring a more prominent disclosure of the pro-forma effect of the fair value based method of accounting for stock-based compensation. The adoption of SFAS No. 148 did not have a material impact on our financial position or operations.

In December 2003, the FASB issued Interpretation No. 46 ("FIN 46R") (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("ARB 51"), which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46 (FIN 46), which was issued in January 2003. Before concluding that it is appropriate to apply ARB 51 voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity ("VIE"). As of the effective date of FIN 46R, an enterprise must evaluate its involvement with all entities or legal structures created before February 1, 2003 to determine whether consolidation requirements of FIN 46R apply to those entities. There is no grandfathering of existing entities. Public companies must apply either FIN 46 or FIN 46R immediately to entities created after January 31, 2003 and no later than the end of the first reporting period that ends after March 15, 2004. The adoption of FIN 46 had no effect on the Company's consolidated financial position, results of operations or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003, with certain exceptions. Management is currently evaluating the effect that the adoption of SFAS No. 149 may have, but believes it will not have a material effect on its results of operations and financial position.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This new statement changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity or classifications between liabilities and equity in a section that has been known as "mezzanine capital." It requires that those instruments be classified as liabilities in balance sheets. Most of the guidance in SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. Adoption of SFAS No. 150 did not have a material effect on our financial statements.

Results of Operations

Year ended December 31, 2003 compared to the Year ended December 31, 2002

Revenues as reported decreased 17% for the year ended December 31, 2003 compared to the year ended December 31, 2002. Revenues for the fiscal year ended 2003 were $431,000 compared to $521,000 in 2002, a decrease of $90,000. This decrease was primarily due to the continuing migration away from equipment related revenues and towards recurring service revenues. Realized equipment sales also decreased from the prior year period due to the deferral of certain revenues. Equipment sales decreased from $214,000 in fiscal 2002 to $26,000 in fiscal 2003.

In fiscal 2003, revenues from providing services increased 38% to $370,000, compared with $269,000 in fiscal 2002 due primarily to the increase in service contracts and subscriber base.

Cost of sales increased by $46,000 from $465,000 in 2002 to $511,000 in 2003. This increase is the result of adding a significant amount of bandwidth to our expanding residential customer service network. Bandwidth costs were $112,000 higher in 2003 than 2002. These bandwidth circuits can manage a substantially larger customer base in the future and so new customers can be added to our residential service network at relatively little additional bandwidth cost. Gross margin on sales in 2003 was a negative $81,000 compared to a positive gross margin in 2002 of $56,000. This change was primarily due to two factors, first the higher bandwidth costs relating to the addition of new residential customers, and second the decline in high margin equipment sales. In 2002 equipment sales, primarily to commercial customers, totaled $214,000 while in 2003 had only $26,000 in equipment sales.

Administrative expenses in 2003 totaled $3,868,000, compared to $2,768,000 in 2002, an increase of $1,100,000 or a 39.7 percent increase. A majority of the 2003 administrative expenses related to stock based compensation to consultants and amortization of deferred compensation to employees and stock subscriptions for contracts entered into in 2002. Expenses related to stock compensation totaled $2,529,000, or 65.4 percent of administrative expenses paid in 2003. Administrative expenses related to stock compensation in 2002 totaled $1,687,000 which was 60.9 percent of total administrative expenses in 2002. During 2003, $2,202,000 in stock compensation was paid to consultants advising CeriStar on product positioning, customer identification and business plan consulting issues compared to $1,305,000 in 2002 including merger costs with Planet Resources. The remaining increase in general and administrative expenses relates primarily to increases in labor costs, travel, and bad debt expense.

Labor expenses increases from $912,000 in 2002 to $984,000 in 2003 for engineering and support to accommodate residential expansion being only partially offset by reduced marketing payroll expense as CeriStar narrowed its marketing focus to primarily the residential market. Travel expenses also increased to $84,000 in 2003 compared to $25,000 in 2002. Travel expense increase is primarily related housing and travel expenses incurred by the new management team, whose primary residence is outside the State of Utah. Bad debt expenses also increase to $126,000 in 2003 from $16,000 in 2002, reflecting collection concerns related to commercial customers. Office, insurance and advertising expense also increased, again a reflection of the residential market expansion.

Liquidity and Capital Resources

As of December 31, 2003, current assets were $245,000 while current liabilities were $1,911,000 equaling a $1,666,000 working capital deficit. In order for CeriStar to continue operating, additional capital is essential as operating revenues are not capable of supporting current operations. During 2003, CeriStar received approximately $462,000 from the sale of its common stock, and borrowed $1,177,000 to fund operations and equipment purchases. A majority of the borrowed funds are short-term and either have warrants attached or are convertible into common stock.

Our principal sources of liquidity and operating capital are the net proceeds from debt and the issuance of common stock for cash, which provided net cash proceeds of approximately $1,607,000 and $859,000 respectively, in 2003 and 2002. This cash was used to fund operations and the purchase of $287,000 of equipment in 2003 and $86,000 of equipment in 2002. Of the short-term debt incurred in 2003, $864,000 was received from a finance company. Operating activities used $1,184,000 in 2003 and $748,000 in 2002.

To meet our funding needs in 2004, CeriStar is actively seeking debt and equity funding in both the public and private capital markets. There can be no assurances that adequate funding can be obtained.

Risks Related to Our Business

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

We have substantial losses and negative cash flow.

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

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

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

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

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

Our access to capital is uncertain.

We have no commitments, agreements or understandings regarding additional financing and we may be unable to obtain additional financing on satisfactory terms or at all. We expect to pursue additional financing through the private placement of debt or equity. If additional funds are raised or acquisitions are made by issuing equity securities, further dilution to the existing stockholders will result. We may also incur or assume substantial indebtedness. These arrangements may require us to relinquish rights to certain of our existing or potential products or other assets. Accordingly, the inability to obtain such financing could have a material adverse affect on our business, financial condition and results of operations. Our future revenue and operating results depend on a number of factors.

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

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

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

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

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

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

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

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

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

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

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ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CERISTAR
Financial Statements
December 31, 2003 and 2002

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CERISTAR, INC.
Index to Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of CeriStar Inc. and Subsidiary

We have audited the accompanying consolidated balance sheet of Ceristar, Inc. as of December 31, 2003 and 2002, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of CeriStar, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended 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 in Note 3, the Company has a deficit in working capital, negative cash flows from operations, and recurring net losses. These issues raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

/s/Tanner + Co.

Salt Lake City, Utah
February 13, 2004

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CERISTAR, INC.
Consolidated Balance Sheet

	December 31,	
Assets	2003	2002
Current assets:		
Cash	$ 164,183	$ 28,210
Accounts receivable, net of allowance for doubtful accounts of $142,242 and $16,117, respectively	68,570	52,945
Prepaid expenses	4,354	3,954
Deposits	8,379	8,338
Total current assets	245,486	93,447
Property and equipment, net	548,919	339,395
	$ 794,405	$ 432,842
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 436,924	$ 385,615
Accrued liabilities	303,871	101,888
Deferred revenue	236,509	181,296
Notes payable including related parties	933,515	2,708
Total current liabilities	1,910,819	671,507
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, $.001 par value; 1,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.001 par value, voting, 25,000,000 shares authorized, 7,859,310 and 5,852,197 shares issued and outstanding, respectively	7,859	5,852
Additional paid-in capital	10,477,098	8,546,387
Deferred compensation	(96,843)	(615,011)
Subscriptions receivable	(28,430)	(996,289)
Accumulated deficit	(11,476,098)	(7,179,604)

Total stockholders' deficit:	(1,116,414)	(238,665)
Total liabilities and stockholders'deficit	$ 794,405	$ 432,842

See accompanying notes to consolidated financial statements. F-2

CERISTAR, INC.
Consolidated Statement of Operations

	Years Ended December 31,	
	2003	2002
Service revenue	$ 404,173	$ 306,512
Equipment sales	26,457	214,440
Total revenues	430,630	520,952
Cost of sales	(511,362)	(465,202)
Selling, general, and administrative expense	(3,867,535)	(2,767,581)
Loss from operations	(3,948,267)	(2,711,831)
Other income (expense)	734	1,753
Interest expense	(348,961)	(23,197)
Loss before benefit for income taxes	(4,296,494)	(2,733,275)
Income taxes benefit	-	-
Net loss	$ (4,296,494)	$(2,733,275)
Loss per common share - basic and diluted	$ (0.62)	$ (0.58)
Weighted average shares - basic and diluted	6,940,000	4,724,000

See accompanying notes to consolidated financial statements. F-3

Consolidated St

Years E

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Defer Compe satio
Balance, January 1, 2002	-	-	4,180,078	4,180	5,284,625	(821,
Issuance of common stock for:						
Cash	-	-	328,654	329	482,584	
Services	-	-	1,072,968	1,073	2,207,017	
Subscription receivables and compensation	-	-	175,322	175	352,328	(320,
Debt	-	-	147,768	148	308,708	
Non-vested common stock reacquired through employee terminations			(52,593)	(53)	(163,875)	161,
Amortization of deferred compensation	-	-	-	-	-	364,
Preferential conversion feature and issue of warrants with long-term debt	-	-	-	-	75,000	
Net loss	-	-	-	-	-	
Balance, December 31, 2002	-	-	5,852,197	5,852	8,546,387	(615,
Issuance of common stock for:						
Cash	-	-	224,097	224	462,166	
Services	-	-	1,949,383	1,949	1,264,362	
Employee stock subscriptions satisfied through services	-	-	-	-	-	
Non-vested common stock canceled through employee terminations	-	-	(166,367)	(166)	(222,817)	211,
Amortization of deferred compensation and subscriptions receivable	-	-	-	-	-	306,
Preferential conversion feature and issue of warrants with long-term debt	-	-	-	-	427,000	
Net loss	-	-	-	-	-	
Balance, December 31, 2003	-	$ -	7,859,310	$ 7,859	$ 10,477,098	$ (96,

See accompanying notes to consolidated financial statements.

CERISTAR, INC.
Consolidated Statement of Cash Flows

	Years Ended December 31,	
	2003	2002
Cash flows from operating activities:		
Net loss	$ (4,296,494)	$ (2,733,275)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	77,414	63,682
Stock issued for services	497,167	1,322,450
Amortization of deferred compensation	306,668	364,578
Stock subscription satisfied with services	1,725,520	-
Amortization of discount on long-term debt	213,003	10,000
Bad debt expense	126,125	16,117
Decrease (increase) in:		
Accounts receivable	(90,181)	(66,856)
Prepaid expense	(400)	-
Deposits	(41)	(8,338)
Increase (decrease) in:		
Accounts payable	51,309	186,990
Accrued liabilities	201,983	40,489
Deferred revenue	3,644	56,396
Net cash used in operating activities	(1,184,283)	(747,767)
Cash flows used in investing activities- purchase of property and equipment	(286,938)	(86,018)
Cash flows from financing activities:		
Proceeds from issuance of common stock	462,390	482,913
Proceeds from related party note	103,000	140,300
Payments on related party notes payable	(9,798)	-
Proceeds from note payable	209,916	228,394
Payments on note payable	(10,090)	(59,838)
Proceeds from convertible short-term debt	864,000	-
Proceeds from convertible long-term debt	-	75,000
Payments on convertible long-term debt	(12,224)	(7,292)
Net cash provided by financing activities	1,607,194	859,477
Net increase in cash and cash equivalents	135,973	25,692
Cash and cash equivalents at beginning of period	28,210	2,518

Cash and cash equivalents at end of period	$ 164,183	$ 28,210

See accompanying notes to consolidated financial statements.

CERISTAR, INC.
Notes to Consolidated Financial Statements

December 31, 2003, and 2002

1. Organization and Description of Business

CeriStar, Inc. (formerly Planet Resources, Inc.) (the Company) operates in the communications industry as a developer and service provider of IP technology applied to data convergence. The Company is located in Salt Lake City, Utah, and was formed in December 1999.

On September 10, 2002 the Company entered into an Agreement and Plan of Merger with Planet Resources, Inc and its wholly owned subsidiary (together referred to as Planet) in which all the issued and outstanding stock of the Company, including Convertible Preferred Series A shares (Series A) and Convertible Preferred Series B shares (Series B), were exchanged for the issued and outstanding stock of Planet. Series A and B shares were exchanged at a rate of approximately .757 for every common share of Planet and common shares of the Company were converted into approximately .322 shares of Planet common share. Just prior to the merger Planet authorized a 1 to 5.23 reverse stock split. The merger was accounted for as a reverse merger with the Company being the accounting acquirer.

2. Summary of Significant Accounting Policies

Concentration of Credit Risk
Financial instruments which potentially subject the Company to concentration of credit risk consist primarily of trade receivables. In the normal course of business, the Company provides on-going credit evaluations of its customers and maintains allowances for possible losses.

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents
Cash includes all cash and investments with original maturities to the Company of three months or less.

2. Summary of Significant Accounting Policies Continued

Property and Equipment
Property and equipment are recorded at cost less accumulated depreciation. Depreciation and amortization on capital leases and property and equipment are determined using the straight-line method over the estimated useful lives of the assets or terms of the leases. Depreciation and amortization periods are as follows:

Computer equipment and software	3 - 5 years
Furniture and fixtures	5 years

Impairment of Long-Lived Assets
The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. The Company evaluates, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The Company uses an estimate of future undiscounted net cash flows of the related asset or group of assets over the estimated remaining life in measuring whether the assets are recoverable. If it is determined that an impairment loss has occurred based on expected cash flows, such loss is recognized in the statement of operations.

Revenue Recognition
Revenue is recognized when a valid contract or purchase order has been executed or received, services have been performed or product has been delivered, the selling price is fixed or determinable, and collectibility is reasonably assured. Payments received prior to performance are recorded as deferred revenue.

Income Taxes
Deferred taxes are computed using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are not recognized unless it is more likely than not that the asset will be realized in future years.

2\. Summary of Significant Accounting Policies Continued

Earnings Per Common and Common Equivalent Share
The computation of basic earnings per common share is computed using the weighted average number of common shares outstanding during the year.

The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus common stock equivalents which would arise from the exercise of warrants outstanding using the treasury stock method and the average market price per share during the year. Warrants and convertible debt to issue 1,290,793 and 83,724 common stock equivalents are not included in the diluted earnings per share calculation for 2003 and 2002, respectively, since their effect is anti-dilutive.

Use of Estimates
The preparation of financial statements in conformity 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Stock-Based Compensation
The Company has adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, In accordance with APB Opinion No. 25, no compensation is recognized for options granted to employees unless those options are re-priced and are subject to variable accounting. No compensation expense is recognized when stock options or warrants are granted to employees. During the year ended December 31, 2003, the Company issued 3,900,000 options to Officers of the Company to purchase the Company's common stock at an exercise price of $.38 to $.46 per share. These options expire in 2013 and vest in November of 2004.

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2. Summary of Significant Accounting Policies Continued

Stock-Based Compensation - Continued

Had compensation cost for these options been determined based upon the fair value at the grant date consistent with the methodology prescribed under SFAS No. 123, the Company's net earnings would have changed as set forth in the table below:

	Years Ended December 31, 2003	Years Ended December 31, 2002
Net income (loss) - as reported	$ (4,296,494)	$ (2,733,275)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	-	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(340,000)	-
Net income (loss) - pro forma	$ (4,636,494)	$ (2,733,275)
Income (loss) per share - as reported	$ (.62)	$ (.58)
Income (loss) per share - pro forma	$ (.67)	$ (.58)

These options were valued at the date of grant with the total calculated pro forma expense equal to approximately $1,585,000. The pro forma expense is being amortized over the vesting period of the option. No options or warrants were issued to employees for the year ended December 31, 2002.

The fair value of each warrant grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions at December 31:

	2003	2002
Expected dividend yield	$ -	$ -
Expected stock price volatility	100%	50.41%
Risk-free interest rate	4.0%	4.25%
Expected life of options	10 years	5 years

The weighted average fair value of each option granted to employees during 2003 was $.41.

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2. Summary of Significant Accounting Policies Continued

Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform with classifications adopted in the current year.

3. Going Concern

The Company has a working capital deficit, a stockholders' deficit, and recurring net losses. These factors create substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern.

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

4. Property and Equipment

Property and equipment consists at December 31:

	2003	2002
Computer equipment and software	$ 694,137	$ 410,598
Furniture and fixtures	13,986	10,587
	708,123	421,185
Less accumulated depreciation and amortization	(159,204)	(81,790)
	$ 548,919	$ 339,395

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5. Accrued Liabilities

Accrued liabilities consisted of the following at December 31:

	2003	2002
Accrued payroll	$ 230,129	$ 90,445
Other	73,743	11,443
	$ 303,872	$ 101,888

6. Deferred Revenue

The Company has entered into long-term service contracts which are accompanied by payments received from customers for initial equipment installation to service residential developments. Amounts received for the initial equipment installation are deferred until they are earned based on the terms of the contract. The balance of the deferred revenue at December 31, 2003 and 2002 was $236,509 and $181,296, respectively.

7. Notes Payable

Notes payable consisted of the following at December 31:

	2003	2002
Discounted convertible notes payable due to a financing company. These notes have a face interest rate of 18% and an effective interest rate of 58% due to amortization of an original discount of $338,000 of which $288,000 was due to a beneficial con-version feature attached to the notes and $50,000 of the discount in the redemption value of the notes. The total unamortized discount at December 31, 2003 was $178,004. The notes are unsecured. Of the notes, $197,000 are due on demand with the remainder due through April 2004. The notes are convertible upon maturity at a rate of 75% of the average closing bid price of the Company's common stock for the five trading days ending on the trading day immediately preceding the conversion date.	$ 685,996	$ -

7. Notes Payable Continued

Note payable with an effective interest rate of 57% including an original discount of $78,015 from issuance of detachable warrants with the note. As of December 31, 2003 the unamortized

portion of the discount was $45,509. The note is due to a financing company and matures on August 2004. The note is secured by equipment.	136,491	-
Convertible notes due to a shareholder and former officer of the Company. These notes bear interest at 12%, are unsecured, and due on demand. Subsequent to December 31, 2003 these notes were in default. The notes are convertible into approximately 186,000 shares at approximately $.50 per share.	93,202	-
Note payable to an individual with interest at 10% secured by receivables and due on demand.	17,826	-
Note payable to a financial institution. The note is payable in monthly installments of $1,744, including interest at 14%, secured by equipment, and matures on May 30, 2007. At December 31, 2003 and 2002 the outstanding balance of the debt was 55,484 and 67,708 less a discount of $55,484 and $65,000, respectively.	-	-
	$ 933,515	$ -

7. Notes Payable Continued

Future maturities of notes payable are as follows:

Year Ending December 31:	Amount
2004	$ 947,556
2005	16,138
2006	18,548
2007	6,757
	988,999
Less discount	(55,484)
	$ 933,515

8. Income Taxes

The benefit for income taxes is different than amounts which would be provided by applying the statutory federal income tax rate to loss before benefit for income taxes for the following reasons:

	Years Ended December 31, 2003	2002
Income tax benefit at statutory rate	$ 1,592,000	$ 1,020,000
Stock valuation for services	(538,000)	(472,000)
Change in valuation allowance	(1,053,000)	(546,000)
Other	(1,000)	(2,000)
	$ -	$ -

Deferred tax assets (liabilities) are comprised of the following as of December 31:

	2003	2002
Net operating loss carry-forwards	$	$ 1,370,000
Amortization of license technology	287,000	298,000
Depreciation	(114,000)	(48,000)
Deferred revenue	88,000	26,000
Allowance for doubtful accounts	43,000	6,000
Valuation allowance	(2,705,000)	(1,652,000)
	$ -	$ -

8. Income Taxes Continued

At December 31, 2003, the Company has net operating loss carry-forwards available to offset future taxable income of approximately $6,437,000 which will begin to expire in 2019. The utilization of the net operating loss carry-forwards is dependent upon the tax laws in effect at the time the net operating loss carry-forwards can be utilized. A valuation allowance has been recorded against the deferred tax asset due to the uncertainty surrounding its realization caused by the Company's recurring losses.

9. Common Stock Warrants

The Company has issued 360,760 and 240,742 warrants in conjunction with the issuance of its securities and convertible debt during the years ended December 31, 2003 and 2002, respectively. Warrants that were issued generally do not have a life that exceeds five years.

Information regarding warrants o purchase common shares is summarized below:

	Number of Options and Warrants	Exercise Price Per Share
Outstanding at January 1, 2002	83,724	$ 1.67
Granted	240,742	1.67 - 4.50
Expired	-	-
Outstanding at December 31, 2002	324,466	1.67 - 4.50
Granted	4,260,760	.38 - 4.50
Expired	-	-
Outstanding at December 31, 2003	4,585,226	$ .38 - 4.50

9. Common Stock Warrants Continued

The following table summarizes information about outstanding warrants and options for common stock at December 31,

	Outstanding			Exercisable	
Range of Exercise Prices	Number Out-standing	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Average Exercise Price
$ .38 - .58	3,900,000	9.79	$ .45	-	$ -
1.00 - 2.55	395,489	2.41	1.39	395,489	1.39
3.30 - 4.50	289,737	2.04	3.71	289,737	3.71
$ .38 - 4.50	4,585,226	8.66	$ .73	685,226	$ 2.37

10. Stock Subscriptions Receivable

Subscriptions receivable consist of the obligation of employees to purchase common shares. In addition the Company may enter into contracts with consultants in which the Company issues stock at the commencement of the contract period. The value of the services or common stock given, which ever is more determinable is recorded as a stock subscription and amortized as expense over the period of the service contract. At December 31, 2003 and 2002 there were approximately $28,000 and $996,000 of subscriptions receivable related to these contracts

11. Deferred Compensationns

Deferred compensation is comprised of common stock issuances to employees which have not yet vested. As of December 31, 2003 and 2002 the company had common stock for employee services valued at $96,843 and $615,011, respectively. The measurement date of compensation is the date the shares were granted.

12. Supplemental Cash Flow Information

During the year ended December 31, 2003, the Company had significant non-cash financing and investing activities as follows:

- Issued 1,282,000 common shares valued at $769,144 to consultants for short-term contract services.

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12. Supplemental Cash Flow Information Continued

- Cancelled 166,367 unvested shares of common stock valued at $222,983 recorded as deferred compensation of $211,500 and subscriptions receivable of $11,483, due to employee terminations.

- Issued warrants in connection with debt which resulted in a debt discount of $139,000.

- Debt issued with beneficial conversion features valued at $288,000 which resulted in debt discounts.

- Recorded accounts receivable for unearned revenue of $51,569.

During the year ended December 31, 2002, the Company:

- Financed the purchase of equipment with a cash advance from a customer which it classified as unearned revenue of $103,196.

- Issued 1,248,290 of the Company's common shares for services of $1,325,660, deferred compensation of $320,000 and subscriptions receivable of $914,933.

- Exchanged 147,768 shares of the Company's common stock for $308,708 of notes payable.
- Issued 45,420 warrants with a beneficial conversion feature attached to long-term debt, which resulted in a discount against the long-term debt of $75,000.
- Reacquired, through employee terminations, 52,593 shares of the Company's common stock for a reduction in deferred compensation of $161,444 and subscriptions receivable of $800.
- Acquired equipment in exchange for accounts payable of $164,541.

12. Supplemental Cash Flow Information Continued

Cash paid for interest and income taxes are as follows:

	Years Ended December 31, 2003	2002
Interest	$ 122,214	$ 23,197
Income taxes	$ -	$ -

13. Related Party Transactions Otherwise not disclosed

Related party transactions are as follows:

- During the year ended December 31, 2002, an officer of the Company and relatives of the Officer exchanged $127,200 of notes payable for 59,585 shares of the Company's common stock.

14. Major Customers

Sales to customers which exceeded 10% of total sales are as follows for the years ended December 31:

2003	2002

Customer A	$	155,000	$	152,000
Customer B	$	-	$	91,000
Customer C	$	-	$	60,000

15. Commitments and Contingencies

Litigation

The Company may become or is subject to investigations, claims or lawsuits ensuing out of the conduct of its business. The Company is currently not aware of any such items which it believes could have a material effect on its financial position.

16. Fair Value of Financial Instruments

The Company's financial instruments consist of cash, receivables and payables. The carrying amount of cash, receivables, convertible long-term debt and payables approximates fair value because of the short-term nature of these items.

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17. Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This standard, which is effective for exit or disposal activities initiated after December 31, 2002, provides new guidance on the recognition, measurement and reporting of costs associated with these activities. The standard requires companies to recognize cost associated with exit or disposal activities when they are incurred rather than at the date the company commits to an exit or disposal plan. The adoption of SFAS No. 146 by the Company did have a material impact on the Company's financial position or future operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting For Certain Instruments with Characteristics of Both Liabilities and Equity". This new statement changes the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity or classifications between liabilities and equity in a section that has been known as "Mezzanine Capital". It requires that those certain instruments be classified as liabilities in balance sheets. Most of the guidance in SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. The adoption of SFAS No. 150 did not have a material impact on the Company's consolidated financial statements.

In December 2003, the FASB issued Interpretation No. 46 ("FIN 46R") (revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 ("ARB 51"), which addresses how a business enterprise should evaluate whether it has a controlling interest in an entity though means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46 (FIN 46), which was issued in January 2003. Before concluding that it is appropriate to apply ARB 51 voting interest consolidation model to an entity, an enterprise must first determine that the entity is not a variable interest entity (VIE). As of the effective date of FIN 46R, an enterprise must evaluate its involvement with all entities or legal structures created before February 1, 2003, to determine whether consolidation requirements of FIN 46R apply to those entities. There is no grandfathering of existing entities. Public companies must apply either FIN 46 or FIN 46R immediately to entities created after January 31, 2003 and no later than the end of the first reporting period that ends after March 15, 2004. The adoption of FIN 46 had no effect on the Company's consolidated financial position, results of operations or cash flows.

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17. Recent Accounting Pronouncements Continued

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN No. 45). FIN No. 45 requires certain guarantees to be recorded at fair value, which is different from current practice to record a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, Accounting for Contingencies. FIN No. 45 also requires the Company to make significant new disclosures about guarantees. The disclosure requirements of FIN No. 45 are effective for the Company in the first quarter of fiscal year 2003. FIN No. 45's initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The Company's previous accounting for guarantees issued prior to the date of the initial application of FIN No. 45 will not be revised or restated to reflect the provisions of FIN No 45. The Company does not expect the adoption of FIN No. 45 to have a material impact on its consolidated financial position, results of operations or cash flows.

The Emerging Issues Task Force issued EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables" addressing the allocation of revenue among products and services in bundled sales arrangements. EITF 00-21 is effective for arrangements entered into in fiscal periods after June 15, 2003. The Company does not expect the adoption of EITF No. 00-21 to have a material impact on the Company's future results of operations or financial position

In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. SAB 104 revises or rescinds portions of the interpretive guidance included in Topic 13 of the codification of staff accounting bulletins in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The adoption of SAB 104 did not have a material effect on the Company's results of operations or financial condition.

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

None.

ITEM 8A CONTROLS AND PROCEDURES

In designing and evaluating our disclosure controls an procedures, management has recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and, consequently, management has been required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the filling date of this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer (since their employment in September 2003), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive and Chief Financial Officer each has concluded that our disclosure controls and procedures are effective in ensuring that information is accumulated and communicated to both the Chief Executive and Chief Financial Officer, as appropriate.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth our control persons and executive officers.

Current Directors and Executive Officers

Name	Age	Position
Frederick A. Weismiller	62	Chairman of the Board, Chief Executive Officer and President
Michael B. Miller	60	Chief Operating Officer

Robert E. Lester	36	Chief Financial Officer
Mark S. Hewitt	52	Director

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Former Directors and Executive Officers

David L. Bailey	64	Chairman of the Board, President and Chief Executive Officer
Dane P. Goodfellow	58	Vice President of Marketing and Director
G. Earl Demorest(1)	49	Vice President of Engineering and Finance
Paul D. Losee	55	Vice President of Corporate Development
Lark M. Allen	59	Director

(1) Mr. Demorest is the son-in-law of Mr. Bailey.

Fred A. Weismiller joined CeriStar as President and Chief Executive Officer and Director in October 2003. In January 2004, Mr. Weismiller became our Chairman of the Board of Directors. From September 2000 until September 2003, Mr. Weismiller was employed by MFJCo., a telecommunications consultancy company as their Chief Executive Officer. From September 2000 through June 2001, Mr. Weismiller was the Chief Operating Officer for Mediacentric, Inc. From January 1995 until July 2000, Mr. Weismiller was employed by Pacific Gateway Exchange as Executive Vice President - International Marketing. From 1990 until 1995, he was employed by Telecom New Zealand, most recently as its Managing Director. From 1969 through 1989 Mr. Weismiller was employed by AT&T, most recently as a Regional Managing Director. Prior to joining AT&T, Mr. Weismiller was with the United States Navy as a Naval Aviation Officer from September 1963 until January 1969. Mr. Weismiller obtained a BSS degree in Economics from Fairfield University in 1963 and a MBA in Professional Management from Pace University in 1974.

Michael B. Miller became our Chief Operating Officer in October 2003. Mr. Miller has over thirty years of telecommunications experience, including senior positions with U.S. West (now Qwest International), involved in Engineering, Construction Management and Installation and Maintenance of Central Office switching and transmission equipment. Before joining CeriStar, from May 2001 until September 2003, Mr. Miller was employed by MFJCo, a telecommunications consultancy as its COO. From September 2000 through June 2001, Mr. Miller was the Senior Vice President - Operations for Mediacentric. Between May 1998 and August 2000, Mr. Miller was an operational consultant to Nextink Communications (now XO Communications). From February 1962 until April 1998, he was employed in a variety of position for US West Communications and US West International (now Qwest Communications), most recently as General Manager, Fixed Network, Malaysia.

Robert Lester has served as Chief Financial Officer and Director since September 2003. Mr. Lester is responsible for financial operations and reporting, corporate finance and investor relations. Prior to joining CeriStar, Mr. Lester was employed by AlphaWest Capital, a boutique advisory firm, as a Managing Director, from January 2002 until October 2003. Before joining CeriStar, Mr. Lester was employed as an investment banker and for Deutsche Banc

Alex. Brown from March 2000 until June 2001; Paribas from January 1999 until March 2000; Ernst & Young, LLC from 1997 through 1998; and Merrill Lynch & Co from 1995 through 1997. Mr. Lester earned a BS in Economics from the University of California in Riverside in 1990 and a MBA from Pepperdine University in Malibu, California in 1994.

Mark S. Hewitt has served as a member of our Board of Directors since April 2000. Currently, Mr. Hewitt is the Chief Technology Officer of Nextbend, Inc. a consumer electronics company based in Florida. Previously he was Chief Technology Officer of Mediacentric Group, a communications solutions provider from February 2000 until September 2001. From August 1999 until October 2000 he was Senior VP at I-Link, Incorporated, a unified messaging and IP telephony company. From May 1998 until September 1999 he was the Senior Director of New Product Development for Frontier Communications, a NASDAQ company which was acquired by Global Crossing. Mr. Hewitt earned a BS in Electronics Engineering in 1974 from the University of Alaska.

David L Bailey served as our Chairman of the Board, President and Chief Executive Officer from December 1999 until his resignation as our President and Chief Executive Officer on October 9, 2003 and his resignation as a member of our Board of Directors on January 21, 2004. From May 1997 to December 1999, Mr. Bailey served as Managing Partner of DL Group, a limited liability corporation, which marketed computer software and telecommunications products. From 1993 to 1997, he was Chairman and Chief Executive Officer of VZ Co