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Joystar Inc  
Form 10QSB  
November 16, 2005

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

FORM 10-QSB

- (X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2005
- ( ) Transition report pursuant of Section 13 or 15(d) of the Securities Exchange Act of 1939 for the transition period \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 000-25973

JOYSTAR, INC.

(Exact name of registrant as specified in its charter)

California

68-0406331

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer Identification No.)

95 Argonaut St. Aliso Viejo, CA 92656, Telephone (949) 837-8101

-----  
(Address of Principal Executive Offices, including Registrant's zip code  
and telephone number)

-----  
Former address

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

The number of shares of the registrant's common stock as of September 30, 2005: 31,249,148 shares.

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

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### JOYSTAR, INC. BALANCE SHEETS (UNAUDITED)

	September 30, 2005	December 31, 2004
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 314,531	\$ 283,869
Other receivables	71,317	100
Prepaid expenses	46,572	16,265
	-----	-----
Total current assets	432,420	300,234
Property and equipment, net	121,969	37,327
Customer list	55,125	--
	-----	-----
Total assets	\$ 609,514	\$ 337,561
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 189,771	\$ 144,416
Accounts payable-merchants	226,820	--
Accrued salaries	62,356	172,038
Accrued payroll taxes	395,697	203,970
Accrued rent	35,000	35,000
Loans from shareholder	472	259,834
	-----	-----
Total current liabilities	910,116	815,258

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Commitments and contingency	--	--
Stockholders' equity:		
Preferred stock, no par value, 10,000,000 shares authorized; none issued	--	--
Common stock, no par value, 50,000,000 shares authorized; 31,249,148 and 23,228,633 shares issued and outstanding at September 30, 2005 and December 31, 2004, respectively	7,221,486	4,178,663
Stock issued for deferred compensation	(419,500)	(621,250)
Stock subscribed not issued, 227,333 shares and 887,333 shares at September 30, 2005 and December 31, 2004, respectively	204,800	794,800
Accumulated deficit	(7,307,388)	(4,829,910)
Total stockholders' (deficit)	(300,602)	(477,697)
Total liabilities and stockholders' equity (deficit)	\$ 609,514	\$ 337,561

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

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JOYSTAR, INC.  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004	For the three months ended September 30, 2005	For mon Septe
Revenues	\$ 469,884	\$ 53,610	\$ 282,476	\$
Operating expenses:				
Selling expense	355,925	--	225,134	
General and administrative	1,718,975	1,046,394	567,807	
Marketing expenses	862,821	1,221,502	488,749	
Total operating expenses	2,937,721	2,267,896	1,281,690	1,
Loss from operations before interest and taxes	(2,467,837)	(2,214,286)	(999,214)	(1,
Interest expense	9,641	--	--	
Provision for taxes - State	--	2,585	--	
Net loss	\$ (2,477,478)	\$ (2,216,871)	\$ (999,214)	\$ (1,
Loss per share	\$ (0.10)	\$ (0.10)	\$ (0.03)	\$

Weighted average number of common

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shares outstanding	26,033,552	21,531,413	29,972,580	22,000,000
	=====	=====	=====	=====

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

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JOYSTAR, INC.  
STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)  
(UNAUDITED)

	COMMON STOCK		Stock issued for Deferred Compensation	Stock Subscrip not Issue
	Number of Shares	Amount		
Balance at December 31, 2004	23,228,633	\$ 4,178,663	\$ (621,250)	\$ 794,000
Stock issued for services	1,877,416	754,591	--	
Stock issued for cash	4,664,213	1,748,632	--	(590,000)
Stock issued for note payable to shareholder	742,411	259,834	--	
Stock issued for accrued payroll	571,429	200,000	--	
Stock issued for interest	27,546	9,641	--	
Stock issued for assets	137,500	70,125	--	
Deferred compensation earned	--	--	201,750	
Net loss	--	--	--	
Balance September 30, 2005	31,249,148	\$ 7,221,486	\$ (419,500)	\$ 204,000

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

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JOYSTAR, INC.  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For the nine months ended September 30, 2005	For the nine months ended September 30, 2004
Cash flows from operating activities:		
Net loss	\$ (2,477,478)	\$ (2,216,871)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	10,701	5,876
Stock issued for services	984,303	1,089,522

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Stock issued for interest	9,641	
Changes in assets and liabilities:		
Decrease (increase) in prepaid expenses	(30,307)	4,777
Decrease (increase) in other receivables	(71,217)	1,900
Increase (decrease) in accounts payable	272,175	(6,088)
Increase in accrued salaries	62,356	(945)
Increase in payroll taxes	191,727	96,166
	-----	-----
Net cash used by operations	(1,048,099)	(1,025,663)
	-----	-----
Cash flows from investing activities:		
Acquisition of property and equipment	(80,343)	(22,971)
	-----	-----
Net cash used by investing activities	(80,343)	(22,971)
	-----	-----
Cash flows from financing activities:		
Increase (decrease) in loans from shareholders	472	(500)
Issuance of common stock	1,158,632	692,185
Stock subscribed not issued	--	328,000
	-----	-----
Net cash provided by financing activities	1,159,104	1,019,685
	-----	-----
Increase (decrease) in cash	30,662	(28,949)
Cash at the beginning of the period	283,869	136,319
	-----	-----
Cash at the end of the period	\$ 314,531	\$ 107,370
	=====	=====
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock for services	\$ 984,303	\$ 1,089,522
Income taxes paid	\$ --	\$ 2,585
Shares issued for shareholder loan	\$ 259,834	\$ 83,295
Shares issued for interest	\$ 9,641	\$ --
Subscribed shares issued	\$ 590,000	\$ --
Shares issued for accrued prior year compensation	\$ 172,038	\$ --
Shares issued for fixed assets and customer list	\$ 70,125	\$ --
Shares issued for future services	\$ --	\$ 22,500

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

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JOYSTAR, INC.  
NOTES TO FINANCIAL STATEMENTS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004  
(UNAUDITED)

1. BASIS OF PRESENTATION

Joystar, Inc. a California corporation (" the Company") was incorporated on February 5, 1998. The Company specializes in selling complex travel products including cruises, vacation packages and group travel through its national sales force of independent travel agents.

All adjustments (consisting only of normal recurring adjustments) have been made which, in the opinion of management, are necessary for a fair presentation.

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Results of operations for the nine months ended September 30, 2005 and 2004 are not necessarily indicative of the results that may be expected for any future period. The balance sheet at December 31, 2004 was derived from audited financial statements.

Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been omitted. These financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2004.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### REVENUE RECOGNITION

The Company sells travel products and services through a merchant model and an agency model.

Under the merchant model the Company records revenues from travel related sales transactions where the Company both purchases from the supplier and sells to the customer the requested travel service. This is reflected in the Statement of Operations at the net amount, which reflects the gross amount charged to the customer less the cost paid to the supplier at the time travel is completed.

Under the agency model the Company receives commissions from travel suppliers for processing reservations and the income is recorded as earned.

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

#### PROPERTY AND EQUIPMENT

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

#### CUSTOMER LIST

The Company acquired a customer list from Vacation and Cruise Resources, Inc. (a Florida Corporation) that will be used in the operation of the Company's travel business in Florida. The Company estimates that the useful life of the list is five years and will amortize the list over that period.

#### USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported

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amounts of assets and liabilities and disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### INCOME TAXES

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

### NET LOSS PER SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 128 "Earnings Per Share" which requires the Company to present basic and diluted earnings per share, for all periods presented. The computation of loss per common share (basic and diluted) is based on the weighted average number of shares actually outstanding during the period. The Company has no common stock equivalents, which would dilute earnings per share.

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### 3. GOING CONCERN

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

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

### 4. LEGAL PROCEEDINGS

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating

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to the exercise of options, among other causes of action. The lawsuit has been dismissed.

An independent third party stockbroker has filed a lawsuit against the Company for refusal to register certain shares to them as un-restricted. Settlement has been reached the 138,600 shares have been registered without restriction.

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### 5. COMMON STOCK

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During the three months ended September 30, 2005, the Company issued 2,082,143 shares of its common stock, no par value per share, at a purchase price of \$0.35 per share, less expenses, to institutional and accredited investors (\$728,750).

Additionally, William M. Alverson, the Company's CEO and one other officer and director converted their respective loans to the Company totaling \$575,000 to equity under the same terms.

In addition to common stock shares, each subscriber received one warrant to purchase the Company's common stock for each two shares purchased. The warrants have the exercise price of \$0.50 per share and expire in five years from the date of issuance. The warrants are subject to call provisions as described in the warrant agreement. The subscribers have certain registration rights to register the shares and the warrants purchased in the placement.

The number of warrants outstanding at September 30, 2005 1,862,514.

### 6. ACQUISITION OF ASSETS

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At July 29, 2005 the Company acquired the assets of Vacation and Cruise Resources, Inc. DBA Miami Cruise Center for \$30,000 cash and 137,500 of restricted common shares valued at the closing price on the date of issue \$70,125. The Company allocated the purchase price of the assets based on Company's best estimate of the fair values as follows:

Furniture and fixtures	\$	23,000
Computers		22,000
Customer list		55,125
		-----
Total	\$	100,125
		=====

### 7. SUBSEQUENT EVENT

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In October the Company issued 25,625 shares of common stock for services valued at the closing price of the stock on the dates issued \$8,400.

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

#### PRELIMINARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

ALL FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE DEEMED BY THE COMPANY TO BE COVERED BY AND TO QUALIFY FOR THE SAFE HARBOR PROTECTION PROVIDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. PROSPECTIVE SHAREHOLDERS SHOULD UNDERSTAND THAT SEVERAL FACTORS GOVERN WHETHER ANY FORWARD - LOOKING STATEMENT CONTAINED HEREIN WILL BE OR CAN BE ACHIEVED. ANY ONE OF THOSE FACTORS COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE PROJECTED HEREIN. THESE FORWARD - LOOKING STATEMENTS INCLUDE PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS, INCLUDING PLANS AND OBJECTIVES RELATING TO THE PRODUCTS AND THE FUTURE ECONOMIC PERFORMANCE OF THE COMPANY. ASSUMPTIONS RELATING TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE AND MARKET CONDITIONS, FUTURE BUSINESS DECISIONS, AND THE TIME AND MONEY REQUIRED TO SUCCESSFULLY COMPLETE DEVELOPMENT PROJECTS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY AND MANY OF WHICH ARE BEYOND THE CONTROL OF THE COMPANY. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THOSE ASSUMPTIONS COULD PROVE INACCURATE AND, THEREFORE, THERE CAN BE NO ASSURANCE THAT THE RESULTS CONTEMPLATED IN ANY OF THE FORWARD - LOOKING STATEMENTS CONTAINED HEREIN WILL BE REALIZED. BASED ON ACTUAL EXPERIENCE AND BUSINESS DEVELOPMENT, THE COMPANY MAY ALTER ITS MARKETING, CAPITAL EXPENDITURE PLANS OR OTHER BUDGETS, WHICH MAY IN TURN AFFECT THE COMPANY'S RESULTS OF OPERATIONS. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD - LOOKING STATEMENTS INCLUDED THEREIN, THE INCLUSION OF ANY SUCH STATEMENT SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES OR PLANS OF THE COMPANY WILL BE ACHIEVED.

#### General

Joystar, Inc., a California corporation, (the "Company") was incorporated in the State of California on February 5, 1998.

Joystar is one of the nation's largest and fastest growing travel agency networks. The Company specializes in selling complex travel products including cruises, vacation packages and group travel. Joystar's offers innovative technology, marketing opportunities and expert support services to over 2800 virtual travel agents. The Company makes it possible for professional travel agents to concentrate on promoting travel and creating customer loyalty without the administrative and financial burden of operating a traditional storefront travel agency.

These financial statements should be read in conjunction with the financial statements and notes for the year ended December 31, 2004.

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#### RESULTS OF OPERATIONS

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Revenues for the quarter ended September 30, 2005, increased 105% to \$282,476 compared to \$137,899 for the previous quarter ended June 30, 2005. This was primarily a result of the increase in our travel agent network.

Gross travel bookings corresponding to earned commissions for the quarter ended

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September 30, 2005 increased 58% to \$2,153,778 compared to \$1,367,477 for the previous quarter ended June 30, 2005.

Additionally, Joystar received new travel bookings for which we have not recognized revenue totaling over \$6,000,000 during the 3 months ended September 30, 2005.

Revenue as a percentage of gross bookings ("revenue margin") was 13% for the third quarter, an increase of 30% compared with the previous quarter ended June 30, 2005. This was due primarily to higher revenue per cruise and vacation and higher commission levels with our travel suppliers. As our gross bookings continue to increase, we anticipate negotiating higher commission levels with our suppliers which will result in higher revenue margins.

As of September 30, 2005 our network of independent travel agents had increased 878 to 2,900 travel agents.

Marketing expenses consist primarily of advertising and recruitment efforts for our travel agent members. For the nine months ended September 30, 2005 marketing expenses decreased \$359,000 to \$863,000 compared to \$1,222,000 for the nine months ended September 30, 2004. This was due to Company's successful host agency branding over the past year and the Company's ability to attract professional agents to its Network more cost effectively.

General and administrative expenses for the nine months ended September 30, 2005 were \$1,719,000 as compared to \$1,046,000 for the nine months ended September 30, 2004, an increase of \$672,000 due primarily to the increases in employees and salaries of \$474,000 and independent contractors \$192,000.

### LIQUIDITY AND SOURCES OF CAPITAL

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During the three months ended September 30, 2005 the Company closed a \$1,640,000 private placement that started in the second quarter, which included \$1,057,000 in cash and the conversion of \$575,000 from debt to equity under the same terms. The Company issued 2,082,143 shares of common stock for \$728,750 as part of the \$1,627,000 financing during the quarter. The Company intends to raise an additional 5 million dollars in 2006. The Company expects to finance the capital needed with additional issuances of its securities. In order to fund the Company's growth, the Company has engaged an NASD member firm to provide investment banking services. There is no assurance that the Company will be able to secure such financing.

At September 30, 2005 the Company had a cash balance of \$314,531 as compared to a cash balance of \$283,869 at December 31, 2004.

To date the Company has financed operations by issuance of shares of common stock in private placements of \$3,619,000 and issuance of shares for services in the amount of \$3,602,000.

### Item 3. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation as of September 30, 2005, that the design and operation of our "disclosure controls and procedures" (as defined in Rule

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13a-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are effective to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated, recorded, processed, summarized and reported to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding whether or not disclosure is required.

During the quarter ended September 30, 2005, there were no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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### PART II. OTHER INFORMATION

#### Item 1. Legal proceedings

In March, 2004 a former employee of the Company who was terminated prior to the acquisition of Joystar, filed a lawsuit in Orange County Superior Court for breach of contract and specific performance relating to the exercise of options, among other causes of action. A settlement was consummated and a dismissal with prejudice was filed.

An independent third party stockbroker has filed a lawsuit against the Company for refusal to register certain shares to them as unrestricted. Settlement has been reached with respect to the 138,600 shares and the Company agreed to remove the restrictive legend from the shares that were previously issued. Case is pending full execution of settlement.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2005, the Company issued 2,082,143 shares of its common stock, no par value per share, at a purchase price of \$0.35 per share, less expenses, to institutional and accredited investors (\$728,750).

Additionally, William M. Alverson, the Company's CEO and one other officer and director converted their respective loans to the Company totaling \$575,000 to equity under the same terms.

In addition to common stock shares, each subscriber received one warrant to purchase the Company's common stock for each two shares purchased. The warrants have the exercise price of \$0.50 per share and expire in five years from the date of issuance. The warrants are subject to call provisions as described in the warrant agreement. The subscribers have certain registration rights to register the shares and the warrants purchased in the placement.

The Company paid 10% commission payable in cash and broker warrants to First Montauk Securities Corp. of Red Bank, New Jersey, member NASD, who acted as a selling agent for the financing. The Company received a total net proceeds of \$728,750, after deducting the legal fees and commissions, and eliminated the existing shareholders' loans in the total amount of \$575,000. The net proceeds will be used by the Company for working capital purposes. The shares and warrants were offered and sold by the Company to investors whom the Company had reasonable

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grounds to believe were "accredited investors" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). The investors were provided access to business and financial about the Company and had such knowledge and experience in business and financial matters that it was able to evaluate the risks and merits of an investment in the Company. Each certificate evidencing securities issued to the investors included a legend to the effect that the securities were not registered under the Securities Act and could not be resold absent registration or the availability of an applicable exemption from registration. No general solicitation or advertising was used in connection with the transaction. The issuance of the shares and warrants was exempt from the registration requirements of the Securities Act by reason of Section 4(2) of the Securities Act and the rules and regulations, including Regulation D thereunder, as transactions by an issuer not involving a public offering.

Item 3. Defaults on Senior Securities	NONE
Item 4. Submission of Items to a Vote	NONE
Item 5. Other Information	NONE

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Item 6.

(a) Exhibits  
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The following Exhibits are incorporated herein by reference or are filed with this report as indicated below.

Exhibit No. -----	Description -----
* Exhibit 10.1	Subscription Agreement
* Exhibit 10.2	Warrant Agreement
* Exhibit 10.3	Escrow Agreement
* Exhibit 10.4	Standstill Agreement
Exhibit 10.5	Agreement for the purchase and sale of assets between Vacation and Cruise Resources, Inc. and Joystar, Inc. dated August 11, 2005.
Exhibit 31	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
Exhibit 32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act

b) Reports on 8K during the quarter: Form 8-K filed on July 21, 2005.

\* Previously filed with the Securities and Exchange Commission.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 15, 2005

JOYSTAR, INC.

By: /s/ William Alverson

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Chief Executive Officer and Chief  
Financial Officer

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