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NORTHSTAR ELECTRONICS INC

Form 10QSB

August 13, 2003

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

For the quarterly period ended June 30, 2003

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

For the transition period from n/a to n/a

333-90031

Commission file number

Northstar Electronics, Inc.

Exact name of small business issuer as specified in its charter

Delaware

State or other jurisdiction of organization

#33-0803434

IRS Employee Identification No.

Suite # 1455 - 409 Granville Street,
Vancouver, British Columbia, Canada V6C 1T2
Address of principal executive offices

(604) 685-0364

Issuer's telephone number

Not Applicable

Former name, former address and former fiscal year, if changed since last
report

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to
be filed by Section 12, 13 or 15(d) of the Exchange Act after the
distribution of securities under a plan confirmed by a court.

Yes No

Not Applicable

PART I - FINANCIAL INFORMATION

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Item 1. Financial Statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Financial Statements
Six Months Ended June 30, 2003
U.S. Dollars
Unaudited
Prepared by management

Consolidated Balance Sheets at June 30, 2003 and at December 31, 2002
Consolidated Statements of Operations for the Three and Six Month
Periods Ended June 30, 2003
Consolidated Statements of Changes in Stockholders' Equity for the Six
Months Ended June 30, 2003
Consolidated Statements of Cash Flows for the Six Months Ended June 30,
2003
Notes to Consolidated Financial Statements

PART II - OTHER INFORMATION

Item 1. Legal Proceedings
Item 2. Changes in Securities
Item 3. Defaults Upon Senior Securities
Item 4. Submission of Matters to a Vote of Security Holders
Item 5. Other Information
Item 6. Exhibits and Reports on Form 8K

SIGNATURES.

NORTHSTAR ELECTRONICS, INC.
Consolidated Balance Sheets
Unaudited
U.S. Dollars

ASSETS	June 30 2003	December 31 2002
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Current		
Cash	\$350,989	\$117,690
Receivables	266,852	345,454
Inventory and work in progress	218,446	147,846
Prepaid expenses	11,232	4,682
 Total Current Assets	 847,519	 615,672
Intangible assets	33,613	33,613
Property and Equipment	108,855	104,458
 Total Assets	 \$989,987	 \$753,743
 LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$223,124	\$418,555
Loans payable	-	72,863
Expense recovery recorded in advance	44,014	-
Current portion of long term debt	66,594	62,079
 Total Current Liabilities	 333,732	 553,497
Long Term Debt	545,806	429,309
Due to Cabot Management Limited	81,618	70,105
Due to Director	13,188	140,297
 Total Liabilities	 974,344	 1,193,208
 STOCKHOLDERS' EQUITY		
Common Stock		
Authorized		
100,000,000 shares of common stock with a par value of \$0.0001 each		
20,000,000 shares of preferred stock with a par value of \$0.0001 each		
Issued and outstanding		
14,259,210 shares of common stock	1,426	1,191
(11,907,976 December 31, 2002)		
Additional Paid in Capital	2,876,046	2,179,624
Other Comprehensive Income	(38,530)	25,213
Deficit	(2,823,299)	(2,645,493)
 Total Stockholders' Equity (Deficit)	 15,643	 (439,465)
 Total Liabilities and Stockholders' Equity	 \$989,987	 \$753,743

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Operations
Three Months and Six Months Ended June 30
Unaudited
U.S. Dollars

	Three Months		Six Months	
	2003	2002	2003	2002
Sales	\$200,183	\$189,779	\$588,897	\$469,020
Discounts	31,518	53,771	97,114	104,242

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Sales net of discounts	168,665	167,526	491,783	364,778
Cost of goods sold	19,383	97,352	168,296	298,140
Gross margin	149,282	70,174	323,487	156,638
Recovery of research and development	251,975	-	325,381	-
Other income	4,127	(6,062)	4,651	98
	405,384	64,112	653,519	156,736
Expenses				
Salaries	231,099	126,868	368,320	220,025
Financial consulting	12,526	25,920	102,689	54,523
Professional fees	7,784	(6,533)	23,091	13,286
Advertising and marketing	33,369	21,535	55,423	35,548
Rent	25,538	20,154	49,760	40,123
Research and development	45,812	35,035	45,812	63,700
Investor relations	33,253	19,651	56,236	33,367
Office and administration	31,605	11,705	48,224	21,749
Travel and business development	18,600	2,593	25,759	11,943
Interest on debt	8,355	10,302	16,706	19,872
Telephone and utilities	13,097	7,198	23,788	14,253
Amortization	2,693	921	8,098	2,761
Proposal development costs	2,346	8	2,346	7,020
Repairs and maintenance	290	(267)	3,265	3,765
Transfer agent fees	773	508	1,808	778
Total expenses	467,140	275,598	831,325	542,713
Net income (loss) for period	\$ (61,756)	\$ (181,876)	\$ (177,806)	\$ (385,977)
Net income (loss) per share	\$ (0.00)	\$ (0.02)	\$ (0.01)	\$ (0.04)
Weighted average number of shares				
Outstanding	12,799,104	8,841,912	13,156,432	9,513,987

NORTHSTAR ELECTRONICS, INC.

Consolidated Statement of Changes in Stockholders' Equity

Six Months Ended June 30, 2003

Unaudited

U.S. Dollars

	Shares	Amount	Additional Paid in Capital	Other Compre- hensive Income	Accumu- lated Deficit	Total Stockholder Equity (Deficit)
Balance						
December						
31, 2002	11,907,976	\$1,191	\$2,179,624	\$25,213	\$(2,645,493)	\$(439,465)

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Net loss for six months	-	-	-	-	(177,806)	(177,806)
Other comprehensive credits (debits)	-	-	-	-	(63,743)	(63,743)
Issuance of common stock for cash	2,097,070	210	886,081	-	-	886,291
Share issuance Cost	-	-	(300,344)	-	-	(300,344)
Issuance of common stock for services	254,164	25	110,685	-	-	110,710

Balance June 30, 2003	14,259,210	\$1,426	\$2,876,046	\$(38,530)	\$(2,823,299)	\$15,643

NORTHSTAR ELECTRONICS, INC.
Consolidated Statement of Cash Flows
Six Months Ended June 30, 2003
Unaudited
U.S. Dollars

	2003	June 30 2002
Operating Activities		
Net income (loss)	\$(177,806)	\$(385,977)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Amortization	8,098	2,761
Issuance of common stock for services	110,710	64,324
Changes in operating assets and liabilities	(222,828)	(56,735)
Net cash provided by (used by) operating activities	(281,826)	(375,627)
Investing Activity		
Acquisition of property and equipment	(12,495)	(1,103)

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Financing Activities		
Issuance of common stock - net proceeds	585,947	373,257
Increase (repayment) of long term debt	121,012	11,634
Due to Cabot Management Limited	11,513	2,962
Advances from (repayment to) director	(127,109)	1,692
Net cash (used) provided by financing activities	591,363	389,545
Effect of foreign currency translation	(63,743)	(20,690)
Inflow (outflow) of cash	233,299	(7,875)
Cash, beginning of period	117,690	39,699
Cash, end of period	\$ 350,989	\$ 31,824
Supplemental information		
Interest paid	\$16,706	\$19,872
Shares issued for services	254,164	198,020
Corporate income taxes paid	\$0	\$0

NORTHSTAR ELECTRONICS, INC.
Notes to Consolidated Financial Statements
Six Months Ended June 30, 2003
Unaudited
U.S. Dollars

1. ORGANIZATION AND BASIS OF PRESENTATION

These financial statements include the accounts of Northstar Electronics, Inc. ("the Company") and its wholly owned subsidiaries Northstar Technical Inc. ("NTI") and Northstar Network Ltd. ("NN"). All inter company balances and transactions are eliminated. The Company was incorporated May 11, 1998 in the State of Delaware and had no operations other than organizational activities prior to the January 1999 merger with NTI described as follows: On January 26, 1999 the Company completed the acquisition of 100% of the shares of NTI. The Company, with the former shareholders of NTI receiving a majority of the total shares then issued and outstanding, effected the merger through the issuance of 4,901,481 shares of common stock from treasury. The transaction has been accounted for as a reverse take over resulting in the consolidated financial statements including the results of operations of the acquired subsidiary prior to the merger.

The Company's business activities are conducted principally in Canada but these financial statements are prepared in accordance with

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accounting principles generally accepted in the United States with all figures translated into United States dollars for reporting purposes.

These unaudited consolidated interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States for interim financial information, are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's December 31, 2002 Form 10-KSB.

In the opinion of the Company's management, this consolidated interim financial information reflects all adjustments necessary to present fairly the Company's consolidated financial position at June 30, 2003 and the consolidated results of operations and the consolidated cash flows for the six months then ended. At June 30, 2003, 52% of the Company's revenues were generated from one contract, which was substantially complete at March 31, 2003 - the Company is continually marketing its services for follow on contracts. At June 30, 2002 the Company recorded nil revenues from contract work. The results of operations for the six months ended June 30, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. COMMON STOCK

During the six months ended June 30, 2003, the following shares of common stock were issued:

For services	254,164
For cash	2,097,070

The above common shares issued for services received represent fair value at the market value of those services.

Item 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with the accompanying unaudited consolidated financial information for the six month periods ended June 30, 2003 and June 30, 2002 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2002 as presented in the Company's Form 10KSB.

Although the Company has experienced a net loss this quarter, it has expended considerable effort in developing new business in new markets for NETMIND and for new design and contract manufacturing work in an effort to materially benefit the future business of the Company. The Company's operations were close to break even for the quarter before the expenses incurred for engineering and business development.

Special Note Regarding Forward Looking Statements

Certain statements in this report and elsewhere (such as in other filings by the Company with the Securities and Exchange Commission ("SEC"), press releases, presentations by the Company of its management and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and "should," and variations of these words and similar expressions, are intended to identify these forward-looking statements. Actual results may materially differ from any forward-looking statements. Factors that might cause or contribute to such differences include, among others, competitive pressures and constantly changing technology and market acceptance of the Company's products and services. The Company undertakes no obligation to publicly release the result of any revisions

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to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The Company's Services

The Company, through its subsidiaries, is a Multiple Applications underwater sonar technology developer, a defense electronics manufacturer and a defense systems integrator.

Underwater Sonar Products and Technologies

The NETMIND System

The Company's first underwater sonar product based on our core technology was the NETMIND system. NETMIND's market is the world's commercial fishing industry and government oceanic research agencies. One of our largest customers has been the United States National Oceanic and Atmospheric Administration (NOAA).

NETMIND is primarily a conservation tool. Electronic sensors attached to a fishing trawl measure the height and width of the net opening, the water temperature, the depth of the net and the amount of fish caught plus other parameters. The sensor information is transmitted via a wireless communications link back to the ship.

NETMIND helps prevent over fishing and allows fishermen to catch fewer fish and still make profits. This gives regulators flexibility in reducing quotas when attempting to conserve limited fish stocks.

Sales for NETMIND have been somewhat slower than expected during this six months period. However, with expanding sales in North America and Europe, we anticipate an upswing in activity in the second half of the fiscal year.

The AQUACOMM Project

The AQUACOMM project involves the development of new, leading edge multiple application sonar technologies and products for a variety of industries. These include defense, offshore oil and gas, commercial fishing, oceanography, marine environment and marine transportation. The Company's funding for AQUACOMM totaling US\$2,394,000 includes \$2,040,000 from the Canadian federal government comprising \$1,420,000 from the Atlantic Innovation Fund (announced July 9,2002), \$230,000 from the National Research Council (announced August 14,2002) and \$390,000 from Scientific Research tax credits (cash refunds made after each fiscal year end based on eligible research and development expenses). The balance is being funded through equity financing. The AQUACOMM development is scheduled to last another two years. To date, the Company has recovered \$325,381 in expenses from this funding.

The Company intends to use its Venture Technology Business Model to maximize the success of the new AQUACOMM technologies. In this model, our core technology is invested in partnerships with established companies in the different industry sectors.

One example of our modus operandi would be the co-development of a military underwater communications system. We would develop the 'wet' end and a large defense contractor would develop the 'dry' end. The defense contractor, being well established in the field, would be responsible for product introduction, marketing and sales. Another example would be the development of a sonar communication system, obstacle avoidance sonar, and long lasting battery technology for an Autonomous Underwater Vehicle (AUV) manufacturer. Northstar intends to become an Original Equipment Manufacturer (OEM) for the AUV company.

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Should our Venture Technology Business Model prove to be successful, we intend to provide up to ten new products arising from the AQUACOMM project to be sold by established companies in their sectors of influence.

Homeland Security

Northstar has successfully developed the sonar hardware and mechanical housing for a large defense contractor's anti-terrorism system. The system is designed to protect naval ships, ports and harbors.

Electronic Contract Manufacturing

In the fall of 1999 we signed a contract with Lockheed Martin, Manassas, Virginia to fabricate and test command and control consoles for Navy submarines. This contract was successfully completed in early 2001 and a follow-on contract was received and completed in the fall of 2001.

Lockheed Martin recently applied for and received U.S. State Department approval for a Manufacturing License Agreement (MLA) that will permit Northstar to manufacture command and control consoles for Lockheed Martin's foreign customers and to offer Lockheed Martin's console technology directly to the Canadian Department of National Defense.

Systems Integration

The Company has created a novel approach to securing and executing large defense contracts by bringing together affiliate companies. The overall capability, which is substantial, is presented to the prime contractors. To date, a memorandum of understanding has been signed with Lockheed Martin Canada to jointly pursue the \$2.0 billion Maritime Helicopter Project.

Results of Operations

Comparison of the three and six months ended June 30, 2003 with the three and six months ended June 30, 2002:

Revenue for the three month period ended June 30, 2003 was \$200,183 compared to \$189,779 of revenue recorded during the same period of the prior year. This modest comparative increase is the result of a slow down in the fishing industry world wide, which impacted on the sales of the NETMIND systems.

Revenue for the six month period ended June 30, 2003 was \$588,897, up from \$469,020 in the prior period due to the contract work completed in the first quarter of this year. Gross profits increased from \$156,638 (33%) in the prior period to \$323,487 (55%) in the current period. The increase is due to increased efficiency in the manufacture of the NETMIND systems and to a higher gross profit earned in the contract sale. The comparative prior period does not include any revenues from contract sales. The Company continues to negotiate for subsequent material contracts with Lockheed Martin and others.

The net loss for the three month period ended June 30, 2003 was \$(61,756) compared to a net loss of \$(181,876) for the three months ended June 30, 2002. Over this past quarter, the Company continued to invest considerable resources in seeking out additional and future contract manufacturing opportunities and is confident that the efforts will return positive results to the Company over the ensuing months and years.

During the past two quarters the Company has continued to pursue the \$2.0B Maritime Helicopter Project as one of Lockheed Martin Canada's partners. This contract is now expected to be awarded in 2004. The Company is also actively attempting to secure a first contract on the Joint Strike Fighter program in the United States, having already signed Memoranda of Interest with Lockheed Martin and four of its partner companies. The Company continues to pursue contracts in the anti-terrorism field, specifically working towards projects that utilize its sonar and marine engineering

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expertise.

A highly significant event for the Company was the acquisition of specialized sonar and transducer technology used in the NETMIND system. Northstar is now producing its own sonar transducers at a lower cost to the Company than when they were purchased outside of the Company. This new capability has shortened the time it takes to develop enhancements to Company products or new sensors and has positively affected the Company's gross margins. This new technology will also allow the Company to expand its acoustic capabilities into military and anti terrorist applications. We are actively pursuing contracts in these areas and anticipate positive results in future quarters.

During the quarter the Company increased expenditures on the marketing and advertising of its NETMIND system and expanded awareness of the NETMIND system through trade shows and a growing distribution network including Ireland and the Scandinavian countries. The new Bottom Contact Sensor was well received by our fishing industry customers and by government researchers. The Company continued on its program towards extending its underwater wireless communication technology into additional applications. During this quarter the Company recovered \$251,975 in expenses pursuant to its AQUACOMM project, for a total recovery over the past six months to June 30, 2003 of \$325,381.

Comparison of Financial Position at June 30, 2003 with June 30, 2002
The Company improved its working capital at June 30, 2003 to \$513,787 with current assets of \$847,519 in excess of current liabilities of \$333,732. At December 31, 2002 the Company had working capital of \$62,175.

Liquidity and Capital Resources

The Company has increased its Stockholders' Equity as a result of its efforts pursuant to a Regulation S offering whereby 2,097,070 shares of common stock have been issued during the past six months for gross proceeds of \$886,081.

The Company is also offering a private placement unit offering pursuant to Regulations D and S for up to 700,000 units at \$0.30 per unit (reduced from \$0.35 per unit). Each unit consists of one common share plus two warrants: one A warrant exercisable at \$0.35 (reduced from \$0.50) to acquire one common share and a B warrant exercisable at \$0.50 (reduced from \$0.75) to acquire one share. At June 30, 2003 the Company had 541,664 A warrants and 541,664 B warrants outstanding.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

No change since previous filing.

Item 2. Changes in Securities.

Options Granted	Date	Exercise Price	Expiry Date
None	-	-	-

Common Stock Issued	Date	Consideration
291,665	January 15, 2003	\$87,500
1,643,905	Jan/Feb/March, 2003	\$740,147
8,834	January, 2003	services valued at \$3,975
4,991	January, 2003	salary valued at \$2,200
5,906	February, 2003	services valued at \$5,906
188,665	Jan/Feb/March, 2003	services valued at \$84,899
14,900	April/May/June 2003	services valued at \$6,856
30,868	May, 2003	services valued at \$12,848

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161,500

April, 2003

\$58,837

Item 3. Defaults Upon Senior Securities.

No change since previous filing.

Item 4. Submission of Matters to a Vote of Security Holders.

No change since previous filing.

Item 5. Other Information.

No change since previous filing.

Item 6. Exhibits and Reports on form 8-K.

No change since previous filing.

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.

August 5, 2003

Northstar Electronics, Inc.
(Registrant)

By: /s/ Wilson Russell
Wilson Russell, PhD
President and Principal
Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 W.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, the undersigned Chief Executive Officer and chief Financial Officer, or persons fulfilling similar functions, each certify:

- (i) That the financial information included in this Quarterly Report fairly presents in all material respects the financial condition and results of operations of the Company as of June 30, 2003 and for the periods presented in the report; and
- (ii) That the Quarterly Report fully complies with the requirements of Sections 13(a) or 15(d) of the Securities exchange Act of 1934

By: /s/ Wilson Russell
Title: Chief Executive Officer and
Chief Financial Officer
Date: August 5, 2003

302 CERTIFICATION

I, Wilson Russell, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Northstar Electronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a - 14 and 15d - 14) for the registrant and have:

- a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date.

5. I have disclosed, based on my most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

6. I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 5, 2003

/s/ Wilson Russell
Wilson Russell, Chief Financial Officer
and Director