NOVA COMMUNICATIONS LTD
Form 10QSB
May 15, 2002

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

FORM 10-QSB

/X/ Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2002

/ / Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.
For transition period from _____________ to ________________.

Commission File Number: 2-98014-D

NOVA COMMUNICATIONS LTD.
(Exact name of small business issuer as specified in its charter)

Nevada	95-4756822
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

3830 Del Amo Blvd., Torrance, CA 90503
(Address of principal executive offices)

Issuer's telephone number including area code: (310) 642-0200

Check whether the Issuer (1) has 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 / /

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Common stock: $.001 par value 31,571,771 shares outstanding at March 31, 2002.

Documents incorporated by reference: None

Total sequentially numbered pages in this document: 21

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NOVA COMMUNICATIONS LTD.

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December 31, 2001 (audited)

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PART I. FINANCIAL INFORMATION

Item 1 Financial Statements

NOVA COMMUNICATIONS LTD.

Consolidated Balance Sheets

	March 31 2002	De
ASSETS		
Current assets:		

Cash	$ 169,894	$
Accounts receivables, less allowance for uncollectible accounts of $71,596 in 2002 and $58,935 in 2001	232,017	
Notes receivable	38,198	
Inventories	142,656	
Prepaid expenses and deposits	50,143	
Available-for-sale investments	32,625	
Total current assets	665,533	
Equipment, net	637,339	
Other assets:		
Goodwill, less accumulated amortization of $3,297,620 in 2002 and $3,296,647 in 2001	21,411	
Deposits	43,047	
Total other assets	64,458	
	$ 1,367,330	$

See accompanying notes.

NOVA COMMUNICATIONS LTD.

Consolidated Balance Sheets (continued)

	March 31 2002	De
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	$ 3,943,190	$
Payable to related parties	20,000	

Accrued payroll and payroll related liabilities	837,293
Customer deposits	409,435
Income taxes payable	-
Other accrued liabilities	539,843
Long-term obligations, due within one year	393,410
Total current liabilities	6,143,171
Long-term obligations	1,071,883
Notes payable to related parties	1,260,033
Commitments	
Stockholders' equity (deficit):	
Preferred stock; no par value; authorized 10,000,000 shares	-
Common stock; $.001 par value; authorized 500,000,000 shares; outstanding 31,571,771 shares in 2002 and 31,428,458 in 2001	31,572
Common stock to be issued	112,000
Additional paid-in capital	13,087,925
Retained deficit	(19,874,122)
Unrealized holding loss from available-for-sale investments	(465,132)
Total stockholders equity (deficit)	(7,107,757)
	$ 1,367,330

See accompanying notes.

NOVA COMMUNICATIONS LTD.

Statements of Operations and Comprehensive Loss

	For The Three Months Ended March 31	
	2002	2001
Revenues	$2,553,844	$1,580,673
Cost of revenues	2,161,395	1,112,037
Gross margin	392,449	468,636
Operating expenses:		

Selling	235,863	138,990
Operating	352,800	576,470
General and administrative	294,505	370,060
Total operating expenses	883,168	1,085,520
Loss from operations	(490,719)	(616,884)
Other income (expenses):		
Loan fees	-	-
Interest, net	(50,888)	(10,505)
Total other income (expenses)	(50,888)	(10,505)
Loss before provision (benefit) for income taxes	(541,607)	(627,389)
Provision (benefit) for income taxes	-	(2,583)
Net loss	$ (541,607)	$ (624,806)
Net loss per common share	$ (.0172)	$ (.0336)
Net loss	$ (541,607)	$ (624,806)
Unrealized holding gain (loss) on available-for-sale investments	-	-
Comprehensive loss	$ (541,607)	$ (624,806)
Comprehensive loss per common share	$ (.0172)	$ (0336)

See accompanying notes.

NOVA COMMUNICATIONS LTD.
Statements of Cash Flows

	For The Three Ended Marc
	2002
Cash flows from operating activities:	
Net loss	$ (541,607)

Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		42,795
Changes in assets and liabilities, net of effects of purchase of subsidiary:		
Receivables		42,331
Inventories		6,194
Prepaid expenses and deposits		(7,611)
Investments		-
Checks issued in excess of cash on hand		-
Accounts payable		(100,331)
Accrued liabilities		399,528
		382,906
Cash flows from investing activities:		
Principal repayments on notes receivable		1,248
Deposits		24,031
Capital expenditures		-
		25,279
Cash flows from financing activities:		
Proceeds from notes payable		66,011
Principal payments on capitalized lease obligations		(2,022)
Proceeds from notes payable to related parties		33,437
Principal payments on notes payable to related parties		-
Additional paid in capital resulting from sales of common stock		104,545
Additional paid-in-capital resulting from sale of common stock by subsidiary		-
		201,971
Net increase (decrease) in cash		68,549
Cash at beginning of quarter		101,345
Cash at end of quarter	$	169,894

See accompanying notes.

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NOVA COMMUNICATIONS LTD.
Notes To Financial Statements

1. Business and summary of significant accounting policies

Business: Nova Communications Ltd. (the "Company" or "Nova") was incorporated under the laws of the State of Utah on March 25, 1985. Effective June 28, 1999, the Company changed its name from First Colonial Ventures, Ltd. to Nova Communications Ltd. and changed its state of incorporation from Utah to Nevada. The Company invests in and provides managerial assistance to developing companies.

Basis of consolidation: The consolidated financial statements include the accounts of Nova and its subsidiaries, Communications 2000, Inc. (also "TEC-networks") and Kadfield, Inc. All intercompany accounts and transactions have been eliminated.

As of March 31, 2002 and December 31, 2001, the Company owned 46.68% of TEC-networks and 100% of Kadfield. TEC-networks is consolidated because management believes it exercises significant influence over this subsidiary.

Losses exceed the minority interest in the equity capital of Communications 2000, Inc. and Kadfield, Inc. Accordingly, losses applicable to the minority interest in Communications 2000, Inc. and Kadfield, Inc. are charged against Nova, as there is no obligation of the minority stockholders to guarantee such losses. If future earning of Communications 2000, Inc. and Kadfield, Inc. do materialize, Nova will be credited to the extent of such losses previously absorbed.

Interim reporting: The Company's year-end for accounting and tax purposes is December 31. In the opinion of management of the Company, the accompanying consolidated financial statements as of March 31, 2002 and for the three months then ended contain all adjustments, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The consolidated results of operations for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full year.

Cash and cash concentrations: For purposes of the statement of cash flows, the Company and its subsidiaries consider cash equivalents to be highly liquid instruments with original due dates within three months of the date purchased.

The Company and its subsidiaries place their cash in financial institutions and, at various times throughout the year, cash held in these accounts has exceeded Federal Deposit Insurance Corporation limits. Neither the Company nor its subsidiaries have experienced any losses as a result of these cash concentrations.

1. Business and summary of significant accounting policies (continued)

Investments: Investments are accounted for under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires that all applicable investments be classified as trading securities, available-for-sale securities, or hold-to-maturity securities. The statement further requires that hold-to-maturity securities be reported at amortized cost and available-for-sale securities be reported at fair market value, with unrealized gains and losses excluded from earnings but reported in a separate component of shareholders' equity (net of the effects of income taxes) until they are disposed of or sold. At the time of disposal or sale, any gains or losses, calculated by the specific identification method, are recognized as a component of operating results.

Equipment: Equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets, which range from five to fifteen years.

Computer software obtained or developed for internal use is capitalized in accordance with Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed for Internal Use". Amortization is computed using the straight-line method over seven years.

Equipment under capitalized lease obligations is carried at estimated fair market value determined at the inception of the lease. Amortization is computed using the straight-line method over the original term of the lease or the estimated useful lives of the assets, whichever is shorter.

Goodwill: Goodwill represents the excess purchase price over the estimated fair value of the net assets of its subsidiaries. Amortization is computed using the straight-line method over seven years.

Impairment of long-lived assets: The Company and its subsidiaries assess the recoverability of long-lived assets by determining whether the depreciation and amortization of the asset's balance over its remaining life can be recovered through projected undiscounted future cash flows. The amount of impairment, if any, is measured based on fair value and charged to operations in the period in which the impairment is determined by management. During 2001, management determined that they would not be able to recover the excess purchase price over the estimated fair value of the net assets of its subsidiaries and charged to operations an expense of approximately $2,738,300 for the impairment of goodwill.

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1. Business and summary of significant accounting policies (continued)

Revenue recognition: Revenue from Nova's managerial assistance services is recognized when services are rendered. TEC-networks routinely enters into contracts for the installation of its business communications systems. Revenue from these sales contracts is recognized under the percentage-of-completion method of accounting in the ratio that costs incurred bear to estimated total costs. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in progress are charged to operations in the period such losses are determined. Revenue from service of business communications systems is recognized when services are rendered. Revenue from Kadfield, Inc.'s computer and electronic equipment sales is recognized when equipment is shipped to customers.

Stock based compensation: The Company and its subsidiaries account for stock based compensation under Statement of Financial Accounting Standards No. 123 ("SFAS 123). SFAS 123 defines a fair value based method of accounting for stock based compensation. However, SFAS 123 allows an entity to continue to measure compensation cost related to stock and stock options issued to employees using the intrinsic method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock issued to Employees". Entities electing to remain with the accounting method of APB 25 must make pro forma disclosures of net income and earnings per share, as if the fair value method of accounting defined in SFAS 123 had been applied. The Company has elected to account for its stock based compensation to employees under APB 25.

Advertising: The Company and its subsidiaries expense the cost of advertising as incurred as selling expenses. Advertising expenses were $96,494 and $57,104 for the quarters ended March 31, 2002 and 2001 respectively. Computer and electronic equipment advertising expenses were $93,240 and $21,055 for the quarters ended March 31, 2002 and 2001 respectively. Business communications equipment advertising expenses were $3,254 and $36,049 for the quarters ended March 31, 2002 and 2001 respectively.

Reporting comprehensive income: The Company and its subsidiaries report and display comprehensive income and its components as separate amounts in the consolidated financial statements. Comprehensive income includes all changes in equity during a period that result from recognized transactions and other economic events other than transactions with owners.

Income taxes: Income taxes are provided on the liability method whereby deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases and reported amounts of assets and liabilities. Deferred tax assets and liabilities are computed using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to

be recovered or settled. The effect on deferred tax assets and liabilities from a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its subsidiaries provide a valuation allowance for certain deferred tax assets, if it is more likely than not that the Company or its subsidiaries will not realize tax assets through future operations.

Segment reporting: The Company and its subsidiaries report information about operating segments and related disclosures about product and services, geographic areas and major customers in annual and interim consolidated financial statements under Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information". Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by Management in deciding how to allocate resources and in assessing performance.

Net loss per common share: Net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The weighted average number of common stock shares outstanding was 31,430,050 for the quarter ended March 31, 2002 (18,603,622 for 2001). Preferred stock is not considered to be a common stock equivalent. Common stock to be issued is not considered to be a common stock equivalent as the effect on net loss per common share is anti-dilutive.

Concentration risk: TEC-networks grants credit to customers primarily in the States of California and Florida. Their ability to collect receivables is affected by economic fluctuations in this geographic area.

Significant risks and uncertainties: The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Management of the Company has made certain estimates and assumptions regarding the collectibility of notes receivable, net realizable value of inventories and estimated fair value of investments. Such estimates and assumptions primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Operations

The Company has experienced recurring losses from operations and as of March 31, 2002 had a working capital deficit of $5,477,638 ($5,099,225 at December 31, 2001) and a net capital deficiency of $7,107,757 ($6,670,695 at December 31, 2001). Various creditors have obtained judgments against TEC-networks aggregating approximately $530,600 that is included in current liabilities.

2. Operations (continued)

TEC-networks recently closed its Tampa, Florida and Concord, California sales offices, reduced its workforce to a more efficient level, and restructured sales salaries to a method based upon performance. Management of TEC-networks believes these cost reduction and sales incentive actions will facilitate efforts to reduce operating losses and ultimately achieve profitability.

TEC-networks is also currently in negotiations to acquire the operations of a division of a publicly traded company that sells a product that compliments its business communications systems operations. This division currently has 27 strategically located offices throughout the Untied States. Management of TEC-networks believes they will be able to achieve economies of scale with the additional markets and customers currently served by this division. There can be no assurances that the Company will be able to successfully negotiate a definitive agreement for the acquisition of this entity.

Nova has made an offer to acquire a data storage facility company currently operating in Chapter 11. Nova believes that it will be able to provide managerial assistance to this company in order for them to achieve profitable operations. There can be no assurances that Nova's offer for this company will be accepted.

The Company and its principal subsidiary, TEC-networks, continue to suffer from a severe working capital shortage. Their efforts to raise additional working capital continue. The Company believes the above actions, events and other factors will allow them to continue operations and ultimately achieve profitability. Until then, the Company is dependent upon its ability to obtain additional capital and debt financing. The consolidated financial statements do not reflect adjustments relating to the recorded asset amounts, or the amounts of liabilities that would be necessary should the Company not be able to continue in existence.

3. Business combination

Effective October 1, 2000, Nova acquired Communications 2000, Inc., dba TEC-networks, in a business combination accounted for as a purchase. TEC-networks engages in the sale, installation and service of business communications systems, including computer networking and voice, data and voice-over-the-Internet communications. TEC-networks began its business during 1995 in Torrance, CA (Los Angeles area) and holds a national distributorship agreement with Nortel Networks, in addition to maintaining supplier relationships with several other major equipment manufacturers and wholesalers Prior to the business combination, the principal stockholder of TEC-networks was a stockholder of Nova and Nova was providing management services to TEC-networks.

3. Business combination (continued)

Also effective October 1, 2000, Communications 2000 acquired Kadfield, Inc. of Redondo Beach, CA. On December 31, 2001, Kadfield, Inc. became a directly-owned subsidiary of Nova Communications. Ltd. Kadfield, Inc. engages in the retail sale of computer and electronic equipment by direct sale and via the Internet under the trade name of "BuyMicro". Its customers are located nationwide.

4. Investments

All of the Company's investments are considered by Management to be available-for-sale investments. The following is a summary of investment securities:

	March 31 2002	December 31 2001
Corporate securities:		
Amortized cost	$ 497,757	$ 497,757
Gross unrealized losses	(465,132)	(465,132)
Estimated fair value	$ 32,625	$ 32,625

The Company's available-for-sale investments consist of the following Corporate Securities:

Gulf Coast Hotels, Inc. ("Gulf Coast"): The Company is a minority partner in Gulf Coast that was formed to purchase the rights to approximately 1.4 acres in Biloxi, Mississippi and to develop a high-rise condominium hotel on that site. Gulf Coast has been unable to raise the approximately $1,000,000 necessary to complete the down payment. The seller has provided extensions to Gulf Coast, however the agreement is in default. Management of Nova has determined that its investment in Gulf Coast had no value based upon the uncertainty of the outcome of Gulf Coast's default.

Legal Club: The Company owns 337,500 shares of common stock of Legal Club, a publicly traded, nationwide membership organization providing access to attorney services at discounted rates. The value of the Company's investment in Legal Club was determined based upon the closing bid price of their common stock on December 31, 2001.

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5. Equipment

Equipment consisted of the following:

	March 31 2002
Office furniture and equipment	$ 534,750
Computer software	261,750
Vehicles	49,414
Marketing equipment	61,259
Equipment reported under capitalized leases, less accumulated amortization of $8,510 in 2002 (7,520 in 2001)	11,290
Leasehold improvements	233,341
	1,151,804
Less accumulated depreciation	(514,465)
Equipment, net	$ 637,339

6. Long-term obligations

Long-term obligations consisted of the following:

	March 31 2002
Note payable and accrued interest payable to PFK Development Group, secured by 337,500 shares of Legal Club stock, borrowings bear interest at 10% per annum, borrowings and accrued interest are due December 2003.	$ 683,927
Note payable to an individual, unsecured, borrowings bear interest at 8% per annum, was due November 2001.	25,904
Other notes payable	88,439
Capitalized lease obligations	667,023
	1,465,293
Less principal due within one year	(393,410)

Long-term obligations	$ 1,071,883

6. Long-term obligations (continued)

Aggregate minimum future lease payments under capitalized leases are as follows for the years ending subsequent to March 31, 2002:

Years ending March 31:	
2003	$ 366,443
2004	193,242
2005	166,296
2006	110,156
2007	6,995
Total minimum lease payment	843,132
Less amount representing interest	(176,109)
Present value of minimum future lease payments	$ 667,023

7. Notes payable to related parties

Notes payable to related parties consisted of the following:

	March 31 2002	
Note payable to Palaut Management, Inc. in exchange for management consulting services, unsecured and non-interest bearing, due June 2003. Palaut Management, Inc. is controlled by close family members of a stockholder of Nova.	$ 625,000	$
Note payable to a stockholder and officer of the Company, unsecured, non-interest bearing, and due on demand. This individual has agreed not to demand repayment of the note before April 2003.	635,033	
Notes payable to related parties	$ 1,260,033	$

8. Commitments

The Company leases various facilities, equipment, and vehicles under non-cancelable operating lease agreements that expire between the years 2002 and 2006. Aggregate minimum future lease payments under these leases are approximately as follows:

Years ending March 31:	
2003	$ 96,552
2004	96,552
2005	63,232
2006	4,146
Total minimum lease payments	$ 260,482

Lease expense aggregated approximately $24,138 for the three months ended March 31, 2002.

9. Income taxes

The components of the provision (benefit) for income taxes are as follows:

	March 31 2002	December 31 2001
State of California	$ -	$ 800
Currently provision (benefit)	$ -	$ 800

10. Other related party transactions

The Company has entered into an agreement with a company for management consulting services. The management company is controlled by close family members of a stockholder of Nova. The agreement expires in June 2003 with renewal provisions. Under the terms of the agreement, the Company is obligated to pay the management company $205,000 per year.

11. Segment information

The Company considers its operations to be in three segments, each of which are strategic businesses that are managed separately because each business sells or provides distinct products and services. The segments are as follows: managerial assistance to developing companies; sale, installation and service of business communications systems, including computer networking and voice, data and voice-over-the-Internet communications; and sale of computer and electronic equipment.

11. Segment information (continued)

Financial information by business segment is as follows:

	Managerial assistance	Business communication systems	Computer and electronic equipment	
	Three Months Ended March 31, 2002			
Revenues	$ -	$ 454,315	$ 2,099,529	$
Loss from operations	(64,080)	(462,959)	37,293	
Identifiable assets	89,532	642,166	614,221	
Capital expenditures	-	-	-	
Advertising expenses	-	3,254	93,240	
Depreciation and amortization	1,261	26,720	13,841	

	Managerial assistance	Business communication systems	Computer and electronic equipment	
	Three Months Ended March 31, 2001			
Revenues	$ 486	$ 1,237,206	$ 342,981	$
Loss from operations	(103,204)	(291,621)	(102,237)	
Identifiable assets	184,956	1,133,255	370,164	
Capital expenditures	-	58,469	-	
Advertising expenses	-	36,049	21,055	
Depreciation and amortization	1,262	150,331	14,814	

Reconciliation of the segment information to the consolidated balances for loss from operations, total assets, and depreciation and amortization are as follows:

	For The Three Months Ended March 31	
	2002	2001

Segment loss from operations	$ (489,746)	$ (497,062)
Amortization of goodwill	(973)	(119,822)
Consolidated loss from operations	$ (490,719)	$ (616,884)

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11. Segment information (continued)

	March 31 2002	Ma
Segment identifiable assets	$ 1,345,919	$
Goodwill, net	21,411	
Consolidated total assets	$ 1,367,330	$

	For The Three Mon Ended March 3 2002	
Segment depreciation and amortization	$ 41,822	$
Amortization of goodwill	973	
Consolidated depreciation and amortization	$ 42,975	$

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Item 2 Management's Discussion And Analysis Of Financial Condition And Results Of Operations

Management's discussion and analysis should be read in conjunction with the financial statements and the notes thereto.

RESULTS OF OPERATIONS

These results include the operations of the Company and its consolidated subsidiaries for the three months ended March 31, 2002 and March 31, 2001.

Net loss, comprehensive loss, net loss per common share and comprehensive loss per common share

Net loss and comprehensive loss for the three months ended March 31, 2002 was $(541,607), a loss decrease of $83,199 compared with a loss of $(624,806) for the same three months of 2001. As a result, net loss per share and comprehensive loss per share for the three months ended March 31, 2002 was $(.0172), a loss decrease of $.0164 per share compared with a loss of $(.0336) for the same three months of 2001.

Revenues

Net revenues for the three months ended March 31, 2002 were $2,553,844, an increase of $973,171 compared with $1,580,673 for the same three months of 2001. Sales of computer and electronic equipment for the three months ended March 31, 2002 were $2,099,529, an increase of $1,756,548 compared with $342,981 for the same three months of 2001. Sales of business communications equipment for the three months ended March 31, 2002 were $454,315, a decrease of ($782,891) compared with $1,237,206 for the same three months of 2001.

Cost of revenues and gross margin

Cost of revenues for the three months ended March 31, 2002 was $2,161,395, or 84.6% of net revenues. Gross margin for the three months ended March 31, 2002 was $392,449 (15.4% of revenues), a decrease of ($76,187) compared with $468,636 (29.6% of revenues) for the same three months of 2001. The gross margin percentage declined as a result of competition in the marketplace and a change in the mix of revenues to lower margin product lines.

Operating expenses

Operating expenses for the three months ended March 31, 2002 were $883,168, a decrease of ($202,352) compared with $1,085,520 for the same three months of 2001.

Other income (expenses)

Net interest expense for the three months ended March 31, 2002 was $50,888 compared with $10,505 for the same three months of 2001. Net interest expense increased as a result of additional borrowings during 2002 and 2001.

OPERATING STRATEGIES AND COST REDUCTIONS

The Company and its subsidiaries have been hampered in their operations during 2002 and 2001 by a shortage of working capital. Despite engaging the services of several investment bankers and professional fundraisers, only $92,000 has been raised from the sale of shares during 2002 to outside parties ($31,383 during 2001). The Company's growth and strategic operating plans for TEC-networks were predicated upon raising $2,000,000 to $4,000,000 in working capital during the first half of 2001. Without adequate working capital, TEC-networks was not able to expand its sales presence as planned. It was also not able to sponsor levels of advertising programs necessary to create a significant number of leads for its existing sales force.

Decisions were made in late 2001 to close the Tampa, FL and Concord, CA offices of TEC-networks, as cost reduction measures. The Tampa, FL location was closed on February 15, 2002, and the Concord, CA office was closed on February 28, 2002. Lease agreements on these locations were simultaneously cancelled. Compensation agreements with remaining sales agents have been converted to a modest base salary with performance-based incentives. TEC-networks retains its ability to sell and install telecommunications systems on a nationwide basis from its Torrance, CA location. Equipment is shipped to a customer's location where it is installed by Torrance-based technicians or outside contractors.

Kadfield, Inc., operating as BuyMicro, was successful in increasing its lines of credit with its suppliers during 2001. It also has focused a portion of its business in large systems that are financed under capital lease arrangements for its customers. Its operations have been profitable since the fourth quarter of 2001.

The Company and its principal subsidiary, TEC-networks, continue to suffer from a severe working capital shortage. Their efforts to raise additional working capital continue. The Company believes the above actions, events and other factors will allow them to continue operations and ultimately achieve profitability. Until then, the Company is dependent upon its ability to obtain additional capital and debt financing.

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PART II. OTHER INFORMATION

Item 5 Other Information

None

Item 6 Exhibits And Reports On Form 8-K

(a) Exhibits

Exhibit Number	Description of Document
3(3)(i)(1)	First Colonial Ventures, Ltd. Articles of Incorporation - March 25, 1985 (Incorporated by reference)
3(3)(i)(2)	First Colonial Ventures, Ltd. Amendment to Articles of Incorporation - August 12, 1985 (Incorporated by reference)
3(3)(i)(3)	First Colonial Ventures, Ltd. Amendment to Articles of Incorporation - September 3, 1985 (Incorporated by reference)
3(3)(i)(4)	First Colonial Ventures, Ltd. Amendment to Articles of Incorporation - February 3, 1992 (Incorporated by reference)
3(3)(ii)(1)	Bylaws (Incorporated by reference)

(b) No reports on Form 8-K where filed during the period covered by this report.

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In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated:

May 14, 2002

/s/Kenneth D. Owen

Kenneth D. Owen   President and Director

May 14, 2002

/s/Leslie I. Handler

Leslie I. Handler   Assistant Secretary and Director

May 14, 2002

/s/Bryce Sherwood

Bryce Sherwood   Director