

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD  
Form 10QSB  
November 20, 2003

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 September 30, 2003

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

95-4756822  
(IRS Employer  
Identification Number)

370 Amapola Ave., Suite 202, TORRANCE, CA 90501  
(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 260,731,368 shares outstanding at September 30,  
2003.

Documents incorporated by reference: No reports on Form 8K were filed during the  
period covered by this report.

Total sequentially numbered pages in this document: 26

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

1

INDEX

NOVA COMMUNICATIONS LTD.

PART I. FINANCIAL INFORMATION

- Item 1 Financial Statements September 30, 2003 (unaudited) and December 31, 2002 (audited).
- (a) Consolidated Balance Sheets, September 30, 2003 (unaudited) and December 31, 2002 (audited).
  - (b) Statements of Operations and Comprehensive Loss for the Nine Months Ended September 2003 and 2002 (unaudited).
  - (c) Statements of Operations and Comprehensive Loss for the Three Months Ended September 2003 and 2002 (unaudited).
  - (c) Notes to Consolidated Financial Statements.
- Item 2 Management's Discussion And Analysis Of Financial Condition And Results Of Operations

PART II. OTHER INFORMATION

- Item 5 Other Information
- Item 6 Exhibits And Reports On Form 8-K

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

PART I. FINANCIAL INFORMATION

Item 1 Financial Statements

NOVA COMMUNICATIONS LTD.

Consolidated Balance Sheets

	September 30 2003 (Unaudited)	December 31 2002 (Audited)
ASSETS		
Current assets:		
Cash	\$ 86,640	\$ 161,129
Accounts receivables, less allowance for uncollectible accounts of \$23,699 in 2003 and \$38,015 in 2002	10,227	28,003
Notes receivable	23,873	31,276
Prepaid expenses and deposits	28,123	21,123
Available-for-sale investments	32,625	32,625
	-----	-----
Total current assets	181,488	274,156
 Equipment, net	 166,002	 194,401
 Other assets:		
Goodwill, less accumulated amortization of \$50,251 in 2003 and \$37,688 in 2002	66,999	79,562
Deposits	1,478	3,063
	-----	-----
Total other assets	68,477	82,625
	 \$ 415,967	 \$ 551,182
	=====	=====

See accompanying notes.

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

Consolidated Balance Sheets (continued)

	September 30 2003 (Unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	-----	-----
Current liabilities:		
Accounts payable	\$ 278,734	\$
Payable to related parties	13,111	
Accrued payroll and payroll related liabilities	221,814	
Customer deposits	17,837	
Income taxes payable	-	
Other accrued liabilities	172,227	
Other accrued liabilities to related parties	-	
Long-term obligations, due within one year	264,449	
	-----	-----
Total current liabilities	968,172	
Long-term obligations	753,927	
Notes payable to related parties	-	
Commitments		
Net capital deficiency:		
Preferred stock; no par value; authorized 10,000,000 shares	-	
Common stock; \$.001 par value; authorized 500,000,000 shares; outstanding 260,731,368, shares in 2003 and 46,958,180 shares in 2002	260,731	
Additional paid-in capital	16,721,730	
Retained deficit	(17,823,461)	
Unrealized holding loss from available-for-sale investments	(465,132)	
	-----	-----
Net capital deficiency	(1,306,132)	
	-----	-----
	\$ 415,967	\$
	=====	=====

See accompanying notes.

NOVA COMMUNICATIONS LTD.

# Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

## Statements of Operations and Comprehensive Loss

	For The Nine Months Ended September (Unaudited)	
	2003	2002
Revenues	\$3,784,818	\$ 6,045,370
Cost of revenues	3,158,295	5,098,709
Gross margin	626,523	946,661
Operating expenses:		
Selling	150,123	287,661
Operating	276,716	389,761
General and administrative	641,678	334,238
Consulting Fees (Paid by stock)	1,835,464	573,169
Total operating expenses	2,903,981	1,584,829
Loss from operations	(2,277,458)	(638,168)
Other income (expenses):		
Loan fees	-	-
Interest, net	(37,603)	(80,237)
Total other income (expenses)	(37,603)	(80,237)
Loss before provision (benefit) for income taxes	(2,315,061)	(718,405)
Provision (benefit) for income taxes	(-)	(-)
Net loss of continuing operations	(2,315,061)	(718,405)
Net loss of discontinued operations	-	(775,336)
Gain on sale of discontinued operations		5,522,708
Net income (loss)	\$ (2,315,061)	\$ 4,028,967
Net income (loss) per common share:		
Continuing operations	\$ (.0115)	\$ (.0175)
Discontinued operations	\$ -	\$ .1154

See accompanying notes.

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

Statements of Operations and Comprehensive Loss

	For The Nine Months Ended September (Unaudited)	
	2003	2002
	-----	-----
Net income (loss)	\$ (2,315,061)	\$ 4,028,967
Unrealized holding gain (loss) on available-for-sale investments	-	-
	-----	-----
Comprehensive income (loss)	\$ (2,315,061)	\$ 4,028,967
	=====	=====
Comprehensive income (loss) per common share	\$ (.0115)	\$ .0980
	=====	=====

See accompanying notes.

6

NOVA COMMUNICATIONS LTD.

Statements of Operations and Comprehensive Loss

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

	For The Three Months Ended September (Unaudited)	
	2003	2002
Revenues	\$ 802,256	\$ 1,872,947
Cost of revenues	663,960	1,517,807
Gross margin	138,296	355,140
Operating expenses:		
Selling	16,193	93,585
Operating	56,607	138,613
General and administrative	84,358	101,068
Consulting Fees (Paid by stock)	-	-
(14,230)		
Total operating expenses	157,158	319,036
Income (loss) from operations	(18,862)	36,104
Other income (expenses):		
Loan fees	-	-
Interest, net	(5,813)	(26,336)
Total other income (expenses)	(5,813)	(26,336)
Income (loss) before provision (benefit) for income taxes	(24,675)	9,768
Provision (benefit) for income taxes	(-)	(-)
Net income (loss) of continuing operations	(24,675)	9,768
Net loss of discontinued operations	-	(171,845)
Gain on sale of discontinued operations		5,522,708
Net income (loss)	\$ (24,675)	\$ 5,360,631
Net income (loss) per common share:		
Continuing operations	\$ (.0001)	\$ .0002
Discontinued operations	\$ -	\$ .1152

See accompanying notes.

7

NOVA COMMUNICATIONS LTD.

Statements of Operations and Comprehensive Loss

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

	For The Three Months Ended September (Unaudited)	
	2003	2002
	-----	-----
Net income (loss)	\$ (24,675)	\$ 5,360,631
Unrealized holding gain (loss) on available-for-sale investments	-	-
	-----	-----
Comprehensive income (loss)	\$ (24,675)	\$ 5,360,631
	=====	=====
Comprehensive income (loss) per common share	\$ (.0001)	\$ .1154
	=====	=====

See accompanying notes.

8

NOVA COMMUNICATIONS LTD.

Notes To Financial Statements

1. Business and summary of significant accounting policies



## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

---

**BUSINESS:** Nova Communications Ltd. (the "Company" or "Nova") is incorporated under the laws of the State of 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 100% owned subsidiary Kadfield, Inc. ("Kadfield"). All intercompany accounts and transactions have been eliminated.

**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 September 30, 2003 and for the nine 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 nine months ended September 30, 2003 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 if, when purchased, their original due dates were within three months. The Company and its subsidiary place their cash in financial institutions. At various times throughout the year, cash held in these accounts has exceeded Federal Deposit Insurance Corporation limits. Neither the Company nor its subsidiary has experienced any losses as a result of these cash concentrations.

**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.

NOVA COMMUNICATIONS LTD.

Notes To Financial Statements

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

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

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

IMPAIRMENT OF LONG-LIVED ASSETS: The Company and its subsidiary 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.

REVENUE RECOGNITION: Revenue from Nova's managerial assistance services is recognized when services are rendered. Revenue from Kadfield's computer and electronic equipment sales is recognized when equipment is shipped to customers.

STOCK BASED COMPENSATION: The Company and its subsidiary 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 subsidiary expense the cost of advertising as incurred as selling expenses. Advertising expenses were approximately \$150,123 for the first nine months of 2003 (\$194,076 for 2002).

REPORTING COMPREHENSIVE INCOME: The Company and its subsidiary 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 results 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.

10

NOVA COMMUNICATIONS LTD.

Notes To Financial Statements

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

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

The Company and its subsidiary 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 subsidiary report information about operating segments and related disclosures about products and services, geographic areas and major customers under Statement of Financial Accounting Standards No. 131 (SFAS 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 200,624,785 for the first nine months of 2003 (41,131,144 for 2002). The weighted average number of common stock shares outstanding was 285,568,325 for the 3rd quarter of 2003 (46,458,181 for 2002). Preferred stock is not considered to be a common stock equivalent. (Also see Note 7 - Common Stock.)

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 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 September 30, 2003 had a working capital deficit of \$786,684 (\$917,540 at December 31, 2002) and a net capital deficiency of \$1,306,132 (\$2,128,732 at December 31, 2002). In addition Kadfield is in default on various long-term obligations.

During 2002, the Company divested of its investment in Communications 2000, Inc., dba TEC-networks.

On May 2, 2003, the Company entered into a Letter Of Intent to merge with PowerSki International, Inc., a privately-held personal watercraft manufacturer. On October 5, 2003, the Company announced that it has executed a binding Memorandum of Understanding to merge with PowerSki. Per its terms Nova and PowerSki shall enter into an agreement and Plan of Merger pursuant to which

### 2. Operations (continued) -----

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

PowerSki will be merged into Nova, with Nova being the surviving corporation. Upon completion of the merger, Nova will change its name to PowerSki International Corp. In conjunction with executing the Memorandum of Understanding, management of both companies have completed due diligence reviews and have determined final terms of the deal. Subsequent to approval by the PowerSki board of directors and shareholders, execution of acquisition agreements, and meeting all terms of the deal, the merger will be consummated.

On August 1, 2003, the Company entered into a Letter Of Intent to sell its wholly-owned subsidiary, Kadfield, Inc. dba BuyMicro, to Trimfast Group, Inc. (Pink Sheets: TFRG), a publicly-traded company based in Deerfield Beach, FL for a total price of \$2 million in a stock transaction. On November 5, 2003, the Company announced that the estimated closing date of the transaction has been set for December 31, 2003. Trimfast and Nova management have scheduled one of two formal due diligence review meetings in the California office of Nova Communications for the week ending Nov. 7, 2003, to move towards completing the due diligence review process.

The Company believes the above actions and along with other plans 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. 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:

	September 30 2003	December 31 2002
	-----	-----
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

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

### 3. Investments (continued)

-----

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, 2002.

### 4. Equipment

-----

Equipment consisted of the following:

	September 30 2003	December 31 2002
	-----	-----
Office furniture and equipment	\$ 99,583	\$ 100,834
Computer software	261,750	261,750
	-----	-----
	361,333	362,584
Less accumulated depreciation	(195,331)	(168,183)
	-----	-----
Equipment, net	\$ 166,002	\$ 194,401
	=====	=====

### 5. Long-term obligations

-----

Long-term obligations consisted of the following:

	September 30 2003	December 31 2002
	-----	-----
Note payable and accrued interest payable to PFK Development Group, secured by 337,500 shares of Legal Club stock and Nova has pledged 35% of its cash receipts from collections of its notes receivable, borrowings bear interest at 10% per annum, borrowings and accrued interest are due December 2004.	\$ 753,927	\$ 736,427
Capitalized lease obligations	264,449	245,377
	-----	-----
	1,018,376	991,804
Less principal due within one year	(264,449)	(118,586)
	-----	-----
Long-term obligations	\$ 753,927	\$ 863,218
	=====	=====

# Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

## Notes To Financial Statements

### 5. Long-term obligations (continued)

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

Years ending December 31:	
-----	
2003	\$ 162,465
2004	68,985
2005	51,566
2006	6,240
	-----
Total minimum lease payment	289,256
Less amount representing interest	(43,879)
	-----
Present value of minimum future lease payments	\$ 245,377
	=====

### 6. Notes payable to related parties

Notes payable to related parties was due to Palaut Management, Inc. in exchange for management consulting services. The note was unsecured, non-interest bearing, and due June 2004. Close family members of a stockholder of Nova control Palaut Management, Inc. This debt was exchanged for common shares of the Company as of March 31, 2003. (See note 8 below.)

### 7. Common stock

During the third quarter of 2003, Palaut Management, Inc. agreed to return to the Company for cancellation a total of 90 million shares of the Company's common stock. A total of 35 million shares were returned as of September 30, 2003. Palaut Management, Inc. will hold 10 million shares of common stock after this transaction is completed. (See SEC Form 8-K filed October 29, 2003.)

During the second quarter of 2003, the Board of Directors authorized the issuance of an aggregate of 76,773,188 shares of its common stock of the Company in exchange professional services. The weighted average issuance price of the shares was \$.0239 per share. Management of the Company valued the shares issued at the closing bid price of the Company's common stock at the date of issuance. Management of the Company estimated the value of the Company's shares granted after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded. The Company recorded professional fees aggregating \$1,835,464 during the quarter ended June 30, 2003 as a result of these grants.

On April 10, 2003 and effective as of March 31, 2003, the Company entered into an Agreement To Convert Debt with Palaut Management, Inc. Under the terms of this agreement the Company will issue to Palaut Management, Inc. one hundred million (100,000,000) shares of the Company's common stock. in exchange for its related party note payable of \$625,000, accrued management fee payable of \$297,197 and accrued related party payable of \$20,000. The value of these shares to be

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

issued was

14

NOVA COMMUNICATIONS LTD.

Notes To Financial Statements

5. Common stock (continued)  
-----

in excess on the closing bid price (\$700,000) of the Company's shares as quoted on the NASD OTC Bulletin Board as of the effective date of the agreement.

On April 10, 2003 and effective as of January 1, 2003, the Company entered into an Employment Agreement with Kenneth D. Owen to serve as its President and Chief Executive Officer for a period of twelve months at the base compensation of \$180,000 per annum. The Company acknowledged that Mr. Owen had acted as President and Chief Executive Officer of the Company for the past twenty-four (24) months without an employment agreement and without any compensation. In consideration of such past uncompensated services, the Company agreed to issue to Mr. Owen seventy-two million (72,000,000) shares of the Company's common stock. This number of shares to be issued was based on the closing bid price of the Company's shares as quoted on the NASD OTC Bulletin Board as of the effective date of the agreement.

In March 2002, the Board of Directors authorized the issuance of 143,313 shares of common stock of the Company to an in exchange for long-term obligations. Management of the Company valued the shares issued at \$.175 per share, the closing bid price of the Company's common stock at the date of issuance. Management of the Company estimated the value of the Company's shares granted after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded.

In June 2002, the Board of Directors authorized the issuance of 400,000 shares of common stock of the Company to PFK Development Group as loan fees to extend the due date of a note payable to them from December 2003 to December 2004. Management of the Company valued the shares issued at \$.175 per share, the closing bid price of the Company's common stock at the date of issuance, and recorded loan fees expense of \$70,000. Management of the Company estimated the value of the Company's shares granted after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded.

During 2002, the Board of Directors authorized the issuance of an aggregate of 14,986,410 shares of common stock of the Company in exchange professional services. The weighted average issuance price of the shares was \$.04 per share. Management of the Company valued the shares issued at the closing bid price of the Company's common stock at the date of issuance. Management of the Company estimated the value of the Company's shares granted after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded. The Company recorded professional fees aggregating \$622,848 during the year ended December 31, 2002 as a result of these grants.

NOVA COMMUNICATIONS LTD.

Notes To Financial Statements

8. Income taxes

Deferred income taxes consisted of the following:

	December 31 2002
	-----
Deferred tax assets	
Net operating loss carryover	\$ 3,828,800
Unrealized losses on investments	158,100
Allowance for uncollectible accounts	12,900
	-----
	\$3,999,800
Valuation allowance for deferred tax assets	(3,999,800)
Net deferred income taxes	\$ -
	=====

The Company has approximately \$11,261,000 in Federal and State of California net operating losses, which, if not utilized, expire through 2022.

The utilization of the net operating loss carryforwards could be limited due to restrictions imposed under Federal and state laws upon a change in ownership. The amount of the limitation, if any, has not been determined at this time. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. As a result of the Company's continued losses and uncertainties surrounding the realization of the net operating loss carryforwards, management has determined that the realization of deferred tax assets is uncertain. Accordingly, a valuation allowance equal to the net deferred tax asset amount has been recorded as of March 31, 2003 and December 31, 2002.



# Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

## Notes To Financial Statements

9. Segment information  
-----

The Company considers its operations to be in two 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 and sale of computer and electronic equipment.

Financial information by business segment is as follows:

	Managerial assistance	Computer and electronic equipment	Total segments
-----			
Nine Months Ended September 30, 2003			
-----			
Revenues	\$ 7,767	\$ 3,777,051	\$ 3,784,818
Income (loss) from operations	(2,355,292)	52,794	(2,302,498)
Identifiable assets	74,641	274,327	348,968
Capital expenditures	-	-	-
Depreciation and amortization	354	40,608	40,962
-----			
	Managerial assistance	Computer and electronic equipment	Total segments
-----			
Nine Months Ended September 30, 2003			
-----			
Revenues	\$ 120,000	\$ 5,925,370	\$ 6,045,370
Loss from operations	(683,343)	(22,139)	(705,482)
Identifiable assets	89,666	471,819	561,485
Capital expenditures	-	-	-
Depreciation and amortization	3,787	31,876	35,663

# Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

## Notes To Financial Statements

9. Segment information (continued)

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

	For The Nine Months Ended September 30	
	2003	2002
Segment loss from operations	\$ (2,302,498)	\$ (705,482)
Amortization of goodwill	(12,563)	(12,563)
Consolidated loss from operations	\$ (2,315,061)	\$ (718,045)
	September 30	September 30
	2003	2002
Segment identifiable assets	\$ 348,968	\$ 561,485
Goodwill, net	66,999	83,750
Consolidated total assets	\$ 415,967	\$ 645,235
	For The Nine Months Ended September 30	For The Nine Months Ended September 30
	2003	2002
Segment depreciation and amortization	\$ 28,399	\$ 35,663
Amortization of goodwill	12,563	12,563
Consolidated depreciation and amortization	\$ 40,962	\$ 48,226

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

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 nine months ended September 30, 2003 and September 30, 2002.

Net loss from continuing operations, comprehensive loss, net loss from continuing operations per common share and comprehensive loss per common share

Net loss from continuing operations for the nine months ended September 30, 2003 was \$(2,315,061), a loss increase of \$(1,596,656) compared with a loss of \$(718,405) for the same nine months of 2002. As a result, net loss from continuing operations per share for the nine months ended September 30, 2003 was \$(.0115), a loss decrease of \$.006 per share compared with a loss of \$(.0175) for the same nine months of 2002.

Net loss from continuing operations for the three months ended September 30, 2003 was \$(24,675), a loss increase of \$(34,443) compared with income of \$9,768 for the same three months of 2002. As a result, net loss from continuing operations per share for the three months ended September 30, 2003 was \$(.0001), a loss increase of \$(.0003) per share compared with income of \$.0002 for the same three months of 2002.

Comprehensive loss for the nine months ended September 30, 2003 was \$(2,315,061), a loss increase of \$(6,344,028) compared with income of \$4,028,967 for the same nine months of 2002. As a result, comprehensive loss per share for the nine months ended September 30, 2003 was \$(.0115), a loss increase of \$(.1095) per share compared with income of \$.0980 for the same nine months of 2002.

Comprehensive loss for the three months ended September 30, 2003 was \$(24,675), a loss increase of \$(5,385,306) compared with income of \$5,360,631 for the same three months of 2002. As a result, comprehensive loss per share for the three months ended September 30, 2003 was \$(.0001), a loss increase of \$(.1155) per share compared with income of \$.1154 for the same three months of 2002.

Revenues, cost of revenues and gross margin

Net revenues for the nine months ended September 30, 2003 were \$3,784,818, a decrease of \$(2,260,552) compared with \$6,045,370 for the same nine months of 2002. Cost of revenues for the nine months ended September 30, 2003 was \$3,158,259, or 83.45% of net revenues. Gross margin for the nine months ended September 30, 2003

was \$626,523, a decrease of \$(320,138) compared with \$946,661 for the same nine months of 2002.

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

Net revenues for the three months ended September 30, 2003 were \$802,256, a decrease of \$(1,070,691) compared with \$1,872,947 for the same three months of 2002. Cost of revenues for the three months ended September 30, 2003 was \$663,960, or 82.76% of net revenues. Gross margin for the three months ended September 30, 2003 was \$138,296, a decrease of \$(216,844) compared with \$355,140 for the same three months of 2002.

### Operating expenses

Operating expenses for the nine months ended September 30, 2003 were \$2,903,981, an increase of \$1,319,152 compared with \$1,584,829 for the same nine months of 2002. During 2003 \$1,835,464 was recorded as consulting fees that were paid by share issuance (compared with \$573,169 in 2002.) In 2003, operating expenses included \$495,000 in executive salary under an employment agreement with the Company's President of which \$360,000 was in recognition of prior year's service. Without these items, other operating expenses for the nine months decreased (\$438,143) from 2002 to 2003, as a result of cost reduction efforts.

Operating expenses for the three months ended September 30, 2003 were \$157,158, a decrease of \$(161,878) compared with \$319,036 for the same three months of 2002. In 2003, operating expenses included \$45,000 in executive salary under an employment agreement with the Company's President. Without this item, operating expenses for the 3rd quarter decreased \$(206,878) from 2002 to 2003, as a result of cost reduction efforts.

### Other income (expenses)

Net interest expense for the nine months ended September 30, 2003 was \$37,603, a decrease of \$(42,634) compared with \$80,237 for the same nine months of 2002. Net interest expense for the three months ended September 30, 2003 was \$5,813, a decrease of \$(20,523) compared with \$26,336 for the same three months of 2002.

### OPERATING STRATEGIES AND COST REDUCTIONS

The Company and its subsidiaries have been hampered in their operations during 2003 and 2002 by a shortage of working capital. As of March 31, 2003, 172,000 000 shares of the Company's common stock were exchanged for \$1,302,197 indebtedness. These shares were issued to parties related to the Company. Despite engaging the services of several investment bankers and professional fundraisers during 2002 and 2003, no funds have been raised from the sale of shares during 2003 to outside parties (\$92,000 during 2002). 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 2002 and 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.

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

On July 22, 2002 the Board of Directors met and approved the sale of the Company's 46.68% interest in Communications 2000, Inc., which transaction was effective on July 1, 2002. The financial statements for the nine months ended September 30, 2002 include the accounts of Communications 2000, Inc. as Net Loss of Discontinued Operations of \$(775,336). These statements also include a Gain on Sale of Discontinued Operations of \$5,522,708.

Kadfield, Inc., operating as BuyMicro, was successful in increasing its lines of credit with its suppliers during 2002. It also has focused a portion of its business in large systems that are financed under capital lease arrangements for its customers. In mid-2003, Kadfield, Inc. discontinued its sales under capital lease arrangements activities as a result of competitive pressures in the marketplace.

The Company and its principal subsidiary, Kadfield, Inc, continue to suffer from a working capital shortage. The effort to raise additional working capital continues. Although Kadfield, Inc. is operating profitably, additional capital is required to enable it to attain its business plan.

On May 2, 2003, the Company entered into a Letter of Intent with PowerSki International Corporation regarding a proposed merger between them, whereby, if consummated, PowerSki International Corporation would merge into the Registrant. PowerSki International Corporation, a non-reporting company based in San Clemente, California, manufactures and distributes its own proprietary PowerSki JetBoard, (TM) a personal lightweight surfboard shaped, motorized watercraft. In addition, PowerSki International Corporation manufactures its patented SuperTorque XT (TM) marine engine for use in a variety of engine applications, including inflatables, catamarans, ultralights, amphibious ATV, kayaks and military vehicles. Under the Letter of Intent, the parties, among other things, will be permitted to undertake a due diligence investigation of each others business, proprieties, customers, financial statements and books and records for a period of 180 days from the date of the Letter of Intent. Any merger that may occur will be subject to the terms and conditions of a definitive Merger Agreement.

On October 5, 2003, the Company announced that it has executed a binding Memorandum of Understanding to merge with PowerSki International, the designer and manufacturer of the patented PowerSki Jetboard. Per its terms Nova and PowerSki shall enter into an agreement and Plan of Merger pursuant to which PowerSki will be merged into Nova, with Nova being the surviving corporation. Upon completion of the merger, Nova will change its name to PowerSki International Corp. Prior to execution of the merger, Nova shall provide to PowerSki working capital funding up to an aggregate amount of \$2,000,000, which will be used to grow the Company and move into high-volume manufacturing of the PowerSki Jetboard. In conjunction with executing the Memorandum of Understanding, management of both companies have completed due

diligence reviews and have determined final terms of the deal. Subsequent to approval by the PowerSki board of directors and shareholders, execution of acquisition agreements, and meeting all terms of the deal, the merger will be consummated.

## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

On August 1, 2003, the Company announced that it had entered into a Letter Of Intent to sell its wholly-owned subsidiary, Kadfield, Inc. dba BuyMicro, to Trimfast Group, Inc. (Pink Sheets: TFRG), a publicly traded company based in Deerfield Beach, FL for a total price of \$2 million in a stock transaction. The Letter of Intent calls for execution of a definitive acquisition agreement once mutual due diligence reviews are completed. On November 5, 2003, the Company announced that the estimated closing date of the transaction has been set for December 31, 2003. Trimfast and Nova management have scheduled one of two formal due diligence review meetings in the California office of Nova Communications for the week ending Nov. 7, 2003, to move towards completing the due diligence review process.

22

PART II. OTHER INFORMATION

Item 5 Other Information  
None

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

Item 6	Exhibits And Reports On Form 8-K
(a)	Exhibits
Exhibit Number	Description of Document
2	Articles and Agreement of Merger Between Nova Communications Ltd. and First Colonial Ventures, Ltd. - July 21, 1999 (Incorporated by reference)
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)(i)(5)	Nova Communications Ltd Articles of Incorporation - July 13. 1999 (Incorporated by reference)
3(3)(ii)(1)	Bylaws (Incorporated by reference)
(b)	No reports on Form 8K were filed during the period covered by this report.

SIGNATURES:

In accordance with Section 13 or 15 (d) of the Exchange Act, the company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD. (Company)

Date: November 12, 2003

By: /s/ KENNETH D. OWEN  
-----

Kenneth D. Owen,  
President

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:

November 12, 2003

/s/ KENNETH D. OWEN  
-----

President and Director

Kenneth D. Owen

November 12, 2003

/s/ LESLIE I. HANDLER  
-----

Treasurer and Director

Leslie I. Handler

November 12, 2003

/s/ BRYCE SHERWOOD  
-----

Director

Bryce Sherwood

24

FORM 10-QSB CERTIFICATION

I, Kenneth D. Owen, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of September 30, 2003.



## Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

2. Based on my knowledge, this quarterly report does not contain any untrue statement of 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are 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 quarterly 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. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or person 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

25

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there are significant changes in internal controls or other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation,

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2003

By: /s/ KENNETH D. OWEN

-----  
Kenneth D. Owen, President

STATEMENT OF CHIEF EXECUTIVE OFFICER REGARDING  
FACTS AND CIRCUMSTANCES RELATING TO EXCHANGE ACT FILINGS

I, Kenneth D. Owen, state and certify as follows:

The financial statements filed with the report on Form 10-QSB for the period ended September 30, 2003 fully comply with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 and that the information contained in said periodic report fairly presents, in all material respects, the financial condition and results of operations of Nova Communications Ltd.

This Statement is submitted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Date: November 12, 2003

By: /s/ KENNETH D. OWEN

-----  
Kenneth D. Owen,  
Chief Executive Officer