

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD
Form 10QSB
November 24, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

- Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2004
- Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from _____ to _____.

Commission File Number: 000-31451

NOVA COMMUNICATIONS, INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of
incorporation or organization)

95-4756822

(I.R.S. Employer
Identification No.)

370 AMAPOLA AVE. # 202, TORRANCE, CALIFORNIA 90501

(Address of principal executive office) (Zip Code)

(310) 642-0200

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes XX

No

As of November 23, 2004, the number of outstanding shares of the issuer's common stock, \$0.001 par value, was 4,125,669 shares.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT: Yes No

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

1

TABLE OF CONTENTS

ITEM 1. FINANCIAL STATEMENTS	3
Consolidated Unaudited Balance Sheet as of September 30, 2004.....	3
Consolidated Unaudited Statements of Operations for the Quarters ended September 30, 2004 and September 30, 2003...	4
Consolidated Unaudited Statements of Cash Flows for the Quarters ended September 30, 2004 and September 30, 2003...	5
Notes to Consolidated Financial Statements.....	6
ITEM 2. MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	10
ITEM 3. CONTROLS AND PROCEDURES.....	11
PART II - OTHER INFORMATION	
ITEM 6. EXHIBITS AND REPORTS ON FORM 8K.....	12
SIGNATURES.....	12

2

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

Consolidated Balance Sheets

		September 30, 2004	
		-----	-----
ASSETS			
Current assets:			
Cash	\$	-	\$
Note receivable due within one year		-	
Current assets of discontinued operations		51,435	

Total current assets		51,435	
Equipment, net		1,278	
Equipment of discontinued operations, net		140,221	
Other assets:			
Note receivable		-	
Advances receivables		723,506	
Other assets of discontinued operations, net		62,811	

Total other assets		786,317	

	\$	979,251	\$
		=====	=====
LIABILITIES AND NET CAPITAL DEFICIENCY			
Current liabilities:			
Checks issued in excess of bank deposits	\$	181	\$
Accounts payable		165,174	
Payable to related parties		5,920	
Accrued payroll and payroll related liabilities		214,334	
Income taxes payable		3,200	
Other accrued liabilities		84,305	
Convertible notes payable		395,000	
Current liabilities of discontinued operations		393,984	

Total current liabilities		1,262,098	
Payable to related party		442,732	
Net capital deficiency:			
Preferred stock; no par value; authorized 10,000,000 shares		-	
Common stock; \$.001 par value; authorized 500,000,000 shares; issued and outstanding 3,940,621 shares in 2004 (2,595,261 shares in 2003)		3,941	
Common stock to be issued		10,000	
Additional paid in capital		21,744,999	
Retained deficit		(22,484,519)	

Net capital deficiency		(725,579)	

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

\$ 979,251
=====

See accompanying notes.

3

NOVA COMMUNICATIONS LTD.

Consolidated Statements of Operations

	Three months ended September 30		Nine months September	
	2004	2003	2004	
Revenues	\$ -	\$ -	\$ 5,550	\$
Operating expenses	305,878	46,359	2,362,081	
Net loss from operations	(305,878)	(46,359)	(2,356,531)	
Interest income (expense), net	(9,773)	596	(29,319)	
Net loss from continuing operations before provision for income taxes	(315,651)	(45,763)	(2,385,850)	
Provision for income taxes - State of California	-	-	800	
Net loss from continuing operations	(315,651)	(45,763)	(2,386,650)	
Net income from discontinued operations	-	21,088	-	
Net loss	\$ (315,651)	\$ (24,675)	\$ (2,386,650)	\$
Net income (loss) per common share:				
Continuing operations	\$ (.084)	\$ (.016)	\$ (.721)	\$
Discontinued operations	\$ -	\$.007	\$ -	\$

See accompanying notes.

4

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

Consolidated Statements of Cash Flows

	Three months ended September 30		Nine months September	
	2004	2003	2004	
Cash flows from operating activities:				
Net loss from continuing operations	\$ (315,651)	\$ (45,763)	\$ (2,386,650)	\$
Adjustment to reconcile net loss from continuing operations to net cash used in operating activities:				
Provision for uncollectible note receivable	-	-	16,274	
Shares issued in exchange for compensation and services	317,500	-	2,224,000	
Provision for income taxes	-	-	800	
Changes in assets and liabilities:				
Receivables	-	-	-	
Checks issued in excess of bank deposits	181	-	181	
Accounts payable	969	(296)	5,537	
Accrued liabilities	(12,674)	43,048	116,980	
	(9,675)	(3,011)	(22,878)	
Cash flows from discontinued operations	-	156,573	-	
Cash flows from investing activities:				
Principal repayments on notes receivable	-	3,001	8,600	
Advances paid	-	-	(210,000)	
	-	3,001	(201,400)	
Cash flows from financing activities:				
Advances from related parties	7,420	-	184,420	
Repayment of advances from related parties	-	-	(11,593)	
Net financing activities of discontinued operations	-	(156,573)	-	
	7,420	(156,573)	172,827	
Net change in cash	(2,255)	(10)	(51,451)	
Cash at beginning of period	-	41	51,451	
Cash at end of period	\$ -	\$ 31	\$ -	\$

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

See accompanying notes.

5

NOVA COMMUNICATIONS LTD.

Consolidated Notes to Financial Statements
September 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 subsidiaries Kadfield, Inc. ("Kadfield") and since its acquisition Realize Development, Inc. All intercompany accounts and transactions have been eliminated.

On July 21, 2003 the Company decided to dispose of Kadfield. Kadfield has been accounted for as a discontinued operation and the results of operations have been excluded from continuing operations in the consolidated statements of operations for all periods presented.

INTERIM REPORTING: The Company's year-end for accounting and tax purposes is December 31.

In the opinion of Management, the accompanying interim unaudited financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary to present fairly its financial position as of September 30, 2004, and the results of its operations and cash flows for the three and nine month periods ended September 30, 2004 and 2003. The results of operations for the three and nine months ended September 30, 2004 and 2003 are not necessarily indicative of the results to be expected for the full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations promulgated by the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with the audited financial statements and accompanying notes for the year ended December 31, 2003 contained in the Company's Annual Report on Form 10-KSB.

CASH FLOWS: 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.

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.

STOCK OPTIONS AND WARRANTS: The Company uses a fair value based method of accounting for stock based compensation to employees.

The Company also accounts for stock options and warrants issued to non-employees for services under the fair value method of accounting.

6

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

NOVA COMMUNICATIONS LTD.

Consolidated Notes to Financial Statements
September 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 3,751,503 for the three months ended September 30, 2004 (2,855,683 for the three months ended September 30, 2003) and 3,310,192 for the nine months ended September 30, 2004 (2,006,248 for the nine months ended September 31, 2003). Common stock to be issued and convertible notes payable are not considered to be common stock equivalents as the effect on net loss per common share would be anti-dilutive.

USE OF ESTIMATES: 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 collectability of notes receivable. 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. BUSINESS COMBINATION

On August 30, 2004, the Company acquired Realize Development, Inc. in a business combination accounted for as a purchase. Realize Development, Inc. was dormant at the time of acquisition and had no assets or liabilities. The Company paid \$1,750 for Realized Development, Inc. which was expensed.

3. OPERATIONS

During 2003, the Company announced their intentions to divest of its investment in Kadfield, Inc. Also, the Company is currently negotiating with several companies in which to invest or acquire.

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 as of September 30, 2004 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.

7

NOVA COMMUNICATIONS LTD.

Consolidated Notes to Financial Statements
September 30, 2004

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

4. CASH FLOW INFORMATION

Supplemental schedule of noncash financing activities are as follows:

	Three months ended September 30		Nine mont Septemb
	2004	2003	2004
Common stock issued in exchange for accrued payroll	\$ -	\$ -	\$ 180,000
Common stock issued in exchange for notes payable and accrued interest	\$ 101,687	\$ -	\$ 101,687
Common stock issued for long- term obligations to related parties	\$ -	\$ 625,000	\$ -

5. ADVANCES RECEIVABLE

The Company has advanced funds to a company for working capital purposes. The advances are unsecured, non-interest bearing, and due on demand.

6. CONVERTIBLE NOTES PAYABLE

The notes payable are due one year from the date of borrowings plus interest at a rate of 8% per annum and are unsecured. The notes and any unpaid interest may be convertible into shares of common stock of the Company at a rate of 75% of the closing bid price of the Company's common stock on the date of conversion. The notes may be converted at the option of the Company, but not before six months, and at the option of the holder, but not before one year, from the date of the notes and only if certain events have occurred.

On September 7, 2004, holders converted \$95,000 of notes and \$6,687 of accrued interest into 170,360 shares of the Company's common stock.

7. PAYABLE TO RELATED PARTY

The payable to related party is due to a company controlled by the president of the Company. The advances are unsecured, non-interest bearing, and due on demand however, this company has agreed not to demand repayment before June 2005.

8. PREFERRED STOCK

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

The Company's preferred stock may be voting or have other rights and preferences as determined from time to time by the Board of Directors.

8

NOVA COMMUNICATIONS LTD.

Consolidated Notes to Financial Statements
September 30, 2004

9. COMMON STOCK

On October 8, 2004, the Company's Board of Directors approved a 1-for-100 reverse stock split for all shareholders of record on that date. All share amounts in the accompanying consolidated financial statements have been restated to reflect the reverse stock split.

On January 21, 2004, the Board of Directors authorized the issuance of 60,000 shares of common stock of the Company in exchange for \$180,000 of accrued payroll. Management of the Company valued the shares issued at \$3.00 per share, the closing bid price of the Company's common stock on 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.

On May 14, 2004, the Board of Directors authorized the issuance of 45,000 shares of common stock of the Company in exchange for \$90,000 of accrued payroll. Management of the Company valued the shares issued at \$2.00 per share, the closing bid price of the Company's common stock on 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.

During the three months ended September 30, 2004, the Company issued an aggregate of 308,500 shares (807,500 shares for the nine months then ended) of its common stock in exchange for consulting and management services aggregating \$317,250 (\$1,588,750 for the nine months then ended). Management of the Company valued the shares issued during the three months ended September 30, 2004 at approximately \$1.03 per share (\$1.97 per share for the nine months then ended), the closing bid price of the Company's common stock on 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.

10. STOCK BASED COMPENSATION

During the three months ended September 30, 2004, the Company issued an aggregate of 2,500 shares (237,500 shares for the nine months then ended of which 215,000 shares were issued to the Company's president) of its common stock to employees as compensation for services for the three months ended September 30, 2004 aggregating \$250 (\$635,250 for the nine months then ended). Management of the Company valued the shares issued at \$.03 per share, the closing bid price of the Company's common stock on 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

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

limited volume of shares being traded.

9

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis contains various forward-looking statements within the meaning of the Securities and Exchange Act of 1934. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward looking terminology such as "may", "expect", "anticipate", "estimates", or "continue" or use of negative or other variations of comparable terminology. We caution that these statements are further qualified by important factors that could cause actual results to differ materially from those contained in our forward looking statements, that these forward looking statements are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in our forward looking statements.

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

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND THREE MONTHS ENDED SEPTEMBER 30, 2004 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2003:

On July 21, 2003 the Company decided to dispose of Kadfield. Kadfield has been accounted for as a discontinued operation and the results of operations have been excluded from continuing operations in the consolidated statements of operations for all periods presented. During the three and six months ended September 30, 2004, management has been devoting its efforts toward identifying business investment and acquisition opportunities. The Company is currently providing working capital advances to a business opportunity.

Operating expenses were \$305,878 for the three months ended September 30, 2004 compared to \$46,359 for the three months ended September 30, 2003. The increase of \$259,519 is a result of incurring \$317,500 of outside consulting services during the three months ended September 30, 2004.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

AS OF SEPTEMBER 30, 2004 COMPARED TO DECEMBER 31, 2003:

The Company's total assets of \$979,251 as of September 30, 2004 increased by \$133,675 from those as of December 31, 2003 primarily as a result of three factors. The Company negotiated a final payment on its notes receivable by reducing the amount to \$8,600 that was collected during the nine months ended September 30, 2004. The Company has advanced a business opportunity an aggregate of \$210,000 during the nine months ended September 30, 2004. And, net change in cash during the nine months ended September 30, 2004 decreased by \$51,451.

Payable to related party increased \$178,500 during the nine months ended September 30, 2004 and aggregated \$442,732 as of that date. This related party has agreed not to demand repayment of the advances before November 2005 and unless cash is available from operations or from a merger, capital stock exchange, asset acquisition, or other business combination. There can be no assurances that this related party will continue to provide advances to the Company.

10

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

ITEM 3. CONTROLS AND PROCEDURES

As of September 30, 2004 the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and President, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based upon that evaluation, these principal executive officers and principal financial officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in the Company's periodic SEC filings. There have been no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation.

11

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8K

(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

Edgar Filing: NOVA COMMUNICATIONS LTD - Form 10QSB

- 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)
- 31 Rule 13a-14(a)/15d-14(a) Certification
- 32 Section 1350 Certification
- (b) Reports on Form 8-K.

No reports on Form 8-K were filed during the period covered by this report.

SIGNATURES

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

Date: November 23, 2004

NOVA COMMUNICATIONS, INC.

By: /s/ KENNETH D. OWEN

Kenneth D. Owen, President