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NOVA COMMUNICATIONS LTD
Form 10QSB
November 18, 2005

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, 2005
- 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.)

1005 Terminal Way, Suite 110, Reno, Nevada 89502

(Address of principal executive office) (Zip Code)

(775) 324-8531

(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 X

No

As of November 16, 2005, the number of outstanding shares of the issuer's common stock, \$0.001 par value, was 10,975,193 shares.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT: Yes No

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NOVA COMMUNICATIONS LTD.

Consolidated Unaudited Balance Sheets as of September 30, 2005
and June 30, 2004

	September 30, 2005

Assets	
Current assets:	
Cash	\$ 13,502
Accounts receivable, less allowance for uncollectible accounts	138,196
Receivable from related party	148,256
Prepaid expenses	319,089
Other current assets	23,004

Total current assets	642,047
Equipment, net	10,134,832
Other assets:	
Note receivable	139,195
Deposits & other	324,596
Other assets	3,000

Total other assets	466,791

	\$ 11,243,670
	=====
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	\$ 1,542,831
Accrued liabilities	1,159,877
Unearned revenue	463,169
Long-term debt due within one year	1,858,247
Other current liabilities	374,863

Total current liabilities	5,398,987
Long-term debt to related parties	241,152
Long-term debt	2,366,983
Stockholders' equity:	
Preferred stock; \$.001 par value; authorized 200,000 shares; outstanding 200,000 shares	200
Common stock; \$.001 par value; authorized 500,000,000 shares; issued and outstanding 8,162,032 shares (6,001,332 shares at June 30, 2005)	8,162
Common stock to be issued	8,703,927
Convertible promissory note and accrued interest	101,140
Additional paid in capital	23,002,916
Retained deficit	(28,579,797)

Total stockholders' equity	3,236,548

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\$ 11,243,670
=====

See accompanying notes.

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NOVA COMMUNICATIONS LTD.

Consolidated Unaudited Statements of Operations for the
Quarters ended September 30, 2005 and September 30, 2004.

	Three mon Septem 2005

Revenues	\$ 1,119,416
Cost of goods sold	276,039

Gross profit	843,377
General and administrative expenses	1,739,934
Research and development expenses	647

Net loss from operations	(897,204)
Interest expense, net	(22,684)

Net loss from operations before provision for income taxes	(919,888)
Provision for income taxes - State of California	-

Net loss	\$ (919,888)
	=====
Net loss per common share	\$ (.152)
	=====

NOVA COMMUNICATIONS LTD.

Consolidated Unaudited Statements of Cash Flows for the
Quarters ended September 30, 2005 and 2004

	Three months September 2005

Cash flows from operating activities:	
Net loss	\$ (919,888)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:	
Depreciation & amortization	303,197
Shares issued in exchange for compensation & services	606,839
Changes in assets and liabilities:	
Receivables	263,219
Other assets	(13,893)
Accounts payable	357,100
Other liabilities	(296,179)

	300,395
Cash flows from investing activities -	
Capital expenditures	(330,478)
Cash flows from financing activities -	
Principal payment on long-term debt	(2,711)
Advances received from related party	-

	(2,711)

Net change in cash	(32,794)
Cash at beginning of period	46,296

Cash at end of period	\$ 13,502
	=====
Supplemental schedule of noncash financing activities -	
Common stock issued in exchange for accrued notes payable & accrued interest	\$ -
	=====

NOVA COMMUNICATIONS LTD.

Consolidated Notes to Condensed Financial Statements
September 30, 2005

1. Summary of significant accounting policies

BUSINESS COMBINATIONS AND BASIS OF CONSOLIDATION: The consolidated condensed financial statements include the accounts of Nova, AquaXtremes, Inc., Xtreme Engines, Inc., NACIO Systems, Inc., and Interactive Holding Group, Inc. since their acquisitions and Kadfield, Inc. until its divestiture. All intercompany accounts and transactions have been eliminated.

On August 30, 2004, the Company acquired 51% of Realized Development, Inc. Realized Development, Inc. changed its name to AquaXtremes, Inc. ("Aqua") in December 2004. On May 9, 2005, the Company acquired the remaining 49% of Aqua.

In December 2004, Aqua formed Xtreme Engines, Inc. ("Engines") and owns 100% of its common stock.

Effective April 1, 2005, the Company acquired 100% of NACIO Systems, Inc. ("NACIO"). NACIO owns 100% of Interactive Holding Group, Inc. ("IHG").

The Company disposed of its' common stock of Kadfield effective December 31, 2004.

INTERIM REPORTING: The Company's year-end for accounting purposes is June 30. In the opinion of Management, the accompanying consolidated condensed financial statements as of September 30, 2005 and 2004 and for the three months then ended, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated condensed financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The results of operations for the three months ended September 30, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year.

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 6,048,177 for the three months ended September 30, 2005 (3,751,503 for the three months ended September 30, 2004). Common stock to be issued is not considered to be a common stock equivalent as the effect on net loss per common share would be dilutive.

2. Operations

The Company's operating strategies focus on the development of

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recreational water sports products and operating and managing its high speed Internet access and enterprise server facilities.

The Company has begun selling distributorships for its recreational water sports products and expects to begin manufacturing and selling those products in 2006.

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NOVA COMMUNICATIONS LTD.

Consolidated Notes to Condensed Financial Statements
September 30, 2005

2. Operations (continued)

Management of the Company believes that operations from the sale of these products will be profitable by the fourth quarter of 2006 and that the Company will recover its development costs within five years.

The Company also purchased NACIO effective April 1, 2005. Since its acquisition, management has pursued aggressive cost cutting programs and eliminated unprofitable products. Management believes these actions will enable NACIO to achieve profitable operations.

The Company is dependent upon its ability to obtain additional capital and debt financing until the Company ultimately achieve profitability, if ever.

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. Common stock

During the three months ended September 30, 2005, the Board of Directors authorized the issuance of 2,160,700 shares of common stock of the Company in exchange for accrued legal fees, management & consulting services. Management of the Company valued the shares issued at \$.28 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.

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.

EXECUTIVE LEVEL OVERVIEW

The Company's operating strategies focus on the development of recreational water sports products and managing its high speed Internet access and enterprise server facilities. The Company has begun selling distributorships for its recreational water sports products and expects to begin manufacturing and selling those products in 2006.

Management has also devoted substantial efforts in the operations of NACIO by pursuing aggressive cost cutting programs and eliminated unprofitable products.

Revenues for NACIO consist of dedicated Internet access fees; hosting, co-location and ESF fees; sales of third party hardware and software; fees for systems and technical integration and administration; fees for power and server connection and connectivity services. Monthly service revenue related to Internet access, hosting, co-location and ESF.

Revenues for IHG consist of computer software compliance monitoring services and products.

Revenues for Aqua to date consist of the sale of dealerships.

Nova Communications LTD presently has executive offices at 55 Leveroni Court, Novato CA. NACIO's enterprise server facilities are also located at that address. Currently, the only significant business risk of NACIO's operations is that the electricity to power the ESF is obtained from a single-source supplier, Pacific Gas & Electric. NACIO has available back-up power generators sufficient to continue to power their enterprise server facilities in the event of short-term power losses. However, if the supply of power to NACIO by Pacific Gas & Electric were delayed or curtailed, the ability of NACIO to provide services to its customers could be adversely affected.

RESULTS OF OPERATIONS

 Three months ended September 30, 2005 compared to the three months ended

 September 30, 2004:

	Three months ended June 30:			
	2005	2004	Increase	%
	-----	-----	-----	-----
Sales	\$ 1,119,416	\$ -	\$ 1,119,416	-%
	=====	=====	=====	=====

The increase in sales was attributable to the two factors: (1) the purchase of NACIO effective April 1, 2005, and (2) Aqua began selling dealerships.

	Three months ended June 30:			
	2005	2004	Increase	%
	-----	-----	-----	-----
Cost of sales	\$ 276,039	\$ -	\$ 276,039	-%
	=====	=====	=====	=====

The increase in the cost of sales was attributable to the purchase of NACIO effective April 1, 2005. Cost of sales related entirely to NACIO's products.

	Three months ended June 30:			
	2005	2004	Increase	%
	-----	-----	-----	-----
General and administrative expenses	\$ 1,739,934	\$ 305,878	\$ 1,434,056	469%
	=====	=====	=====	=====

The increase in selling, general & administrative expenses was attributable to two factors: the purchase of NACIO effecting April 1, 2005, and (2) the issuance of common stock for services increased \$289,339.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2005 compared to June 30, 2005:

	September 30, 2005	June 30, 2005	(decrease)
	-----	-----	-----
Accounts receivable, net	\$ 138,196	\$ 401,415	\$ (263,219)
	=====	=====	=====

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The decrease in accounts receivable was attributed to NACIO placing a priority in collecting accounts receivable more timely.

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ITEM 3. CONTROLS AND PROCEDURES

As of September 30, 2005, an evaluation was performed under the supervision and with the participation of the Company's management, including the Principal Executive Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the Chief Executive Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2005. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to September 30, 2005.

PART II - OTHER INFORMATION

ITEM 2. SALES OF UNREGISTERED SECURITIES AND USE OF PROCEEDS

On or about August 18, 2005, the Company issued 400,000 shares of its common stock to Barry Davis in consideration of the payment of \$4,400.00.

On or about September 1, 2005, the Company issued 20,000 shares of its common stock to Philip Rodriguez upon the exercise by Mr. Rodriguez of the conversion rights under the Company's Convertible Promissory Note dated November 14, 2003 in the principal amount of \$5,000. In addition to the principal of \$5,000, Mr. Rodriguez converted accrued interest in the amount of approximately \$608.00

ITEM 6. EXHIBITS AND REPORTS ON FORM 8K

(a) Exhibits.

Exhibit Number	Description of Document
3.1	Articles of Incorporation as Amended *
3.2	By laws *
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 Certification
32.2	Section 1350 Certification

* Filed by reference to a prior filing of the Registrant.

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 17, 2005

NOVA COMMUNICATIONS, INC.

By: /s/ LESLIE J. HANDLER

Leslie J. Handler, President