ENCOMPASS HOLDINGS, INC.
Form 10QSB
February 14, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended December 31, 2005

[ ] Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from __________ to __________.

Commission File Number: 000-31451

ENCOMPASS HOLDINGS, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA	95-4756822
(State or other jurisdiction of incorporation or organization)	(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)

NOVA COMMUNICATIONS LTD.
(Former name, former address, and former fiscal year, if changed since last report)

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 February 13, 2006, the number of outstanding shares of the issuer's common stock, $0.001 par value, was 11,945,907 shares.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT: Yes [ ] No [X]

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ENCOMPASS HOLDINGS, INC.
(Formerly known as Nova Communications Ltd.)

Condensed Consolidated Balance Sheets

	December 31, 2005	
Assets		
Current assets:		
Cash	$ 311,460	$
Accounts receivable, less allowance for uncollectible accounts	520,767	
Receivable from related party	27,678	
Prepaid expenses	202,778	
Other current assets	24,036	
Total current assets	1,086,719	
Equipment, net	9,765,458	
Other assets:		
Note receivable	-	
Deposits & other	416,283	
Other assets	3,000	
Total other assets	419,283	
	$ 11,271,460	$
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,343,769	$
Accrued liabilities	789,962	
Unearned revenue	512,206	
Long-term debt due within one year	2,463,780	
Other current liabilities	170,000	
Total current liabilities	5,279,717	
Long-term debt to related parties	103,971	
Long-term debt	2,675,414	
Net capital deficiency:		
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 11,945,907 shares (6,001,332 shares at June 30, 2005)	11,946	
Common stock to be issued	8,703,927	
Convertible promissory note and accrued interest	105,140	
Additional paid in capital	24,063,228	
Retained deficit	(29,672,083)	
Total stockholders' equity	3,212,358	

	$ 11,271,460	$

See accompanying notes.

ENCOMPASS HOLDINGS, INC.
(Formerly known as Nova Communications Ltd.)

Condensed Consolidated Statements of Operations

	Three months ended December 31		Six months December
	2005	2004	2005
Revenues	$ 1,196,958	$ -	$ 2,316,374
Cost of goods sold	266,145	-	542,184
Gross profit	930,813	-	1,774,190
Operating expenses:			
General & administrative	1,533,610	713,327	3,273,544
Research & development	457,926	1,209,705	458,573
	1,991,536	1,923,032	3,732,117
Net loss from operations	(1,060,723)	(1,923,032)	(1,957,927)
Other expenses:			
Interest expense, net	(18,287)	(15,786)	(40,971)
Loss on disposal of equipment	(1,277)	-	(1,277)
	(19,564)	(15,786)	(42,248)
Net income from operations before provision for income taxes	(1,080,287)	(1,938,818)	(2,000,175)
Provision for income taxes	12,000	800	12,000
Net loss from continuing operations	(1,092,287)	(1,939,618)	(2,012,175)
Net gain on disposal of discontinued operations, net of provision for income taxes	-	139,517	-
Net loss	$ (1,092,287)	$ (1,800,101)	$ (2,012,175)
Net loss per common share	$ (.111)	$ (.404)	$ (.236)

See accompanying notes.

ENCOMPASS HOLDINGS, INC.
(Formerly known as Nova Communications Ltd.)

Condensed Consolidated Statements of Cash Flows

	Three months ended December 31		Six months December
	2005	2004	2005
Cash flows from operating activities:			
Net loss	$ (1,092,287)	$ (1,800,101)	$ (2,012,175)
Adjustment to reconcile net loss to net cash provided by (used in) operating activities:			
Provision for uncollectible accounts	-	723,506	-
Depreciation & amortization	251,460	-	554,657
Unearned revenue	62,072	-	(8,821)
Shares issued in exchange for services	469,988	998,599	806,757
Loss on disposal of equipment	1,271	-	1,271
Changes in assets and liabilities:			
Receivables	(162,675)	-	(119,352)
Other assets	47,528	(23,000)	90,831
Accounts payable	(212,061)	40,273	158,038
Accrued liabilities	65,165	612,797	8,270
	(569,539)	552,074	(520,524)
Cash flow from discontinued operations	-	(508,230)	-
Cash flows from investing activities:			
Capital expenditures	-	-	(58,299)
Advances received from (paid to) related parties	30,715	(39,787)	39,925
	30,715	(39,787)	(18,374)
Cash flows from financing activities:			
Proceeds from long-term debt	1,000,000	-	1,000,000
Principal payments on long-term debt	(101,953)	-	(88,757)
Principal payments on long-term debt to related parties	(61,265)	-	(107,181)

	836,782	-	804,062	
Net change in cash	$ 297,958	$ 4,057	$ 265,164	

Continued on next page.

ENCOMPASS HOLDINGS, INC.
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Condensed Consolidated Statements of Cash Flows (continued)

	Three months ended December 31		Six months December	
	2005	2004	2005	
Cash at beginning of period	$ 13,502	$ -	$ 46,296	$
Net change in cash	297,958	4,057	265,164	
Cash at end of period	$ 311,460	$ 4,057	$ 311,460	$
Supplemental disclosure of non-cash investing and financing activities:				
Notes receivable exchanged for equipment	$ 137,500	$ -	$ 137,500	$
Notes payable converted to common stock	$ 175,000	$ 15,000	$ 175,000	$
Payable to related party exchanged for preferred stock	$ -	$ 442,732	$ -	$

See accompanying notes.

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ENCOMPASS HOLDINGS, INC.
(Formerly known as Nova Communications Ltd.)

Notes to Condensed Consolidated Financial Statements
December 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COMPANY: Effective January 27, 2006, Nova Communications Ltd. changed its name to Encompass Holdings, Inc. ("Encompass" or "the Company").

BUSINESS COMBINATIONS AND BASIS OF CONSOLIDATION: The consolidated condensed financial statements include the accounts of Encompass, AquaXtremes, Inc., Xtreme Engines, Inc., Rotary Engine Technology, 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").

Effective December 2, 2005, Engines acquired 100% of Malibu Construction, a dormant entity. Malibu Construction changed its name to Rotary Engine Technology, Inc ("Rotary").

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 December 31, 2005 and 2004 and for the three and six months then ended, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the condensed consolidated financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The results of operations for the three and six months ended December 31, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year.

REVENUE RECOGNITION: 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 is recognized over the period services are provided. Service and equipment installation revenue is recognized at completion of installation and upon commencement of

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED): services. Payments received in advance of providing services are deferred until the period such services are provided, except in the case of non-refundable payments including last-month deposits, which are recognized when service is initiated. Equipment sales and installation revenue are recognized when installation is completed.

Revenues for IHG consist of computer software compliance monitoring services and products. Service revenues related to software compliance monitoring are generally billed annually and recognized ratably over the period services are provided. Software product sales are recognized when software is provided.

Revenues for Aqua consist of the sale of dealerships and are recognized when dealership agreements are signed.

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 9,806,557 for the three months ended December 31, 2005 and 8,536,231 for the six months ended December 31, 2005 (4,460,977 for the three months ended December 31, 2004 and 4,335,776 for the six months ended December 31, 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 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.

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.

Also, the Company entered into an agreement for up to $2,500,000 of additional financing for the development of its recreational water sports products. The Company

2. OPERATIONS (CONTINUED)

received $1,000,000 in November 2005 and $700,000 in January 2006 under the agreement.

The Company is dependent upon its ability to obtain additional capital and debt financing until it ultimately achieves 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. CONVERTIBLE NOTES PAYABLE

On November 29, 2005, the Company entered into a Security Purchase Agreement whereby the Company obtained financing for up to $2,500,000. The borrowings are secured by the Company's common stock and bear interest at 8%. The notes are convertible into shares of the Company's common stock at the option of the holder. Under the terms of the Security Purchase Agreement, the Company also agreed to issue warrants for the purchase of up to 3,500,000 shares of its common stock.

The Company has reserved 59,055,556 shares of its common stock for issuance upon conversion of the notes and warrants.

During November 2005, the Company borrowed $1,000,000 under the Security Purchase agreement and issued warrants for the purchase of 1,400,000 shares of its common stock. In January 2006, the Company borrowed an additional $700,000 under the Security Purchase agreement and issued warrants for the purchase of 979,380 shares of its common stock. The warrants are exercisable at $.50 per share in whole or in part and are subject to other exercise restrictions.

4. COMMON STOCK

In October 2005, the Board of Directors authorized the issuance of 163,100 shares of common stock of the Company in exchange for legal services. Management of the Company valued the shares issued at $.19 per share, the closing bid price of the Company's common stock on the date of issuance.

In November 2005, the Board of Directors authorized the issuance of an aggregate of 2,000,000 shares of common stock of the Company in exchange for consulting services. Management of the Company valued the shares issued at the closing bid price of the Company's common stock on the date of issuance. The shares issued were valued at an average price of $.245 per share.

4. COMMON STOCK (CONTINUED)

Also in November 2005, the Board of Directors authorized the issuance of 500,000 shares of common stock of the Company in exchange for accrued management fees. Management of the Company valued the shares issued at $.26 per share, the closing bid price of the Company's common stock on the date of issuance.

In December 2005, the Board of Directors authorized the issuance of 200,000 shares of common stock of the Company in exchange for legal services. Management of the Company valued the shares issued at $.20 per share, the closing bid price of the Company's common stock on the date of issuance.

Also in December 2005, holders of notes payable converted $175,000 of their notes and $60,713 of accrued interest into 1,270,714 shares of common stock of the Company.

In July, 2005, the Board of Directors authorized the issuance of an aggregate 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.

5. SUBSEQUENT EVENTS

Management of Rotary is currently negotiating for the purchase of certain equipment to be used for the manufacture of rotary engines to be used in the Company's recreational water sports products. If the agreement is consummated, Rotary will issue 49% of its common stock for the equipment valued at approximately $3,060,000.

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

SIX MONTHS ENDED DECEMBER 31, 2005 COMPARED TO THE SIX MONTHS ENDED DECEMBER 31, 2004 AND THREE MONTHS ENDED DECEMBER 31, 2005 COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2004:

	Six months ended December 31		Inc
	2005	2004	Amount
Revenue	$ 2,316,374	$ -	$ 2,316,374

	Three months ended December 31		Inc
	2005	2004	Amount
Revenue	$ 1,196,958	$ -	$ 1,196,958

Revenue for the six and three months ended December 31, 2005 resulted relates entirely to the Company's acquisition of NACIO Systems, Inc. effective April 1, 2005.

	Six months ended December 31		Inc
	2005	2004	Amount
Cost of goods sold	$ 542,184	$ -	$ 542,184

	Three months ended December 31		Inc

	2005	2004	Amount
Cost of goods sold	$ 266,145	$ -	$ 266,145

Cost of goods sold for the six and three months ended December 31, 2005 resulted relates entirely to the Company's acquisition of NACIO Systems, Inc. effective April 1, 2005.

	Six months ended December 31		Inc
	2005	2004	Amount
General & administrative	$ 3,273,544	$ 1,019,205	$ 2,254,339

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	Three months ended December 31		Inc
	2005	2004	Amount
General & administrative	$ 1,533,610	$ 713,327	$ 820,283

General & administrative expenses for the six and three months ended December 31, 2005 resulted relates entirely to the Company's acquisition of NACIO Systems, Inc. effective April 1, 2005.

	Six months ended December 31		Dec
	2005	2004	Amount
Research & development	$ 458,573	$ 1,209,705	$ (751,132)

	Three months ended December 31		Dec
	2005	2004	Amount
Research & development	$ 457,926	$ 1,209,705	$ (751,779)

Research & development expense related to the Company's recreational water sports equipment. That research & development is funded entirely from debt and equity financing. During the six months ended December 31, 2005 the Company was unable to continue its research & development efforts until additional debt & equity financing was obtained. On November 29, 2005, the Company entered into a

Security Purchase Agreement where by it obtained financing for up to $2,500,000. Also on that date, they received $1,000,000 under the agreement to continue its research and development activities.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

AS OF DECEMBER 31, 2005 COMPARED TO JUNE 30, 2005:

	December 31, 2005	June 30, 2005	Incr Amount
Cash	$ 311,460	$ 46,296	$ 265,164

The increase in cash results from the receipt of $1,000,000 on November 29, 2005 under the Security Purchase Agreement.

	December 31, 2005	June 30, 2005	Incr Amount
Long-term debt:			
Current portion	$ 2,463,780	$ 1,858,257	
Long-term debt	2,675,414	2,369,694	
	$ 5,139,194	$ 4,227,951	$ 1,091,243

The increase in long-term debt is a result of the receipt of $1,000,000 on November 29, 2005 under the Security Purchase Agreement.

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ITEM 3. CONTROLS AND PROCEDURES

As of February 14, 2006, 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 February 14, 2006. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to February 14, 2006.

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

(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: February 14, 2006

ENCOMPASS HOLDINGS, INC.

By: /s/ ARTHUR N. ROBINS

Arthur N. Robins
Chief Executive Officer