

Edgar Filing: ENCOMPASS HOLDINGS, INC. - Form 10KSB/A

ENCOMPASS HOLDINGS, INC.  
Form 10KSB/A  
March 06, 2006

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-KSB/A  
Amendment No. 1

(Mark One)

Annual report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004.

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission file number:333-82608  
-----

ENCOMPASS HOLDINGS, 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 89502-2179  
-----

(Address of principal executive office) (Zip Code)

(775) 324-8531  
-----

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:

COMMON STOCK, \$.001 PAR VALUE

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  
---          ---

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation SB is not contained in this form and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ x ].

Issuer's revenues of its most recent fiscal year was \$ 5,550.

The aggregate market value of the voting common stock held by non-affiliates computed with reference to the average bid and asked price of such common equity as of March 25, 2005 was \$5,928,570 based on the average bid and ask prices on March 25, 2005

As of December 31, 2004 , the number of outstanding shares of the issuer's common stock, \$0.001 par value was 4,981,332 shares.

DOCUMENTS INCORPORATED BY REFERENCE: NONE

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

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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### OVERVIEW

We are in the business of acquiring ownership interests in developing companies in a wide range of industries and providing financing and managerial assistance to those companies. We seek to invest in companies that, in our opinion, have the reasonable potential for growth. Our objective is to achieve long-term growth. At the current time, we have one subsidiary, Aqua Xtremes, Inc. which is in the business of manufacturing and marketing a personal watercraft and the rotary engine that drives the jet pump and propels the watercraft. Aqua Xtremes, Inc. in turn has a wholly-owned subsidiary, Xtreme Engines, Inc. At the present time, we own 51% of the issued and outstanding common stock of Aqua Xtremes, Inc. We are in the process of negotiating the acquisition of the remaining 49%.

We have entered into a Memorandum of Understanding with Nacio Systems, Inc. to acquire all of its assets. Nacio Systems and its wholly-owned subsidiary, Interactive Holding Group, Inc. provide centralized information technology services to corporate clients. The acquisition of the Nacio assets is subject to further negotiation leading up to the execution of an Asset Acquisition Agreement.

#### BUSINESS STRATEGY

##### AQUA XTREMES, INC.

Aqua Xtremes, Inc, designs, manufacturers, and markets revolutionary water sports equipment. One of its most notable products is the XBoard(TM) a jet-powered personal watercraft that redefines extreme watersports. XBoards(TM) allow riders of all skill levels to experience the exhilaration of surfing anywhere, anytime. The XBoard(TM) design team has created a revolutionary watercraft that combines an innovative hull design and a powerful EPA conforming rotary engine. Aqua Xtremes is currently recruiting distributors and dealers.

##### NACIO SYSTEMS, INC.

Nacio Systems, Inc. provides centralized information technology solutions to corporate clients, supporting their business operations with applications such as e-commerce, content management, software auditing and customer relationship management (CRM). Companies need no longer install, maintain and support complex IT applications; Nacio hosts, manages and delivers mission critical IT infrastructure from its secure, high-availability Tier 1 network/data operating center in Northern California--reducing costs, mitigating risk, compressing deployment times and increasing reliability.

Nacio's Professional Services and Application Development groups provide customization services to ensure that the applications Nacio delivers are tailored to specific business needs successfully deployed across the customer's enterprise. In the face of increasing costs and the complexities of today's corporate applications, Nacio Systems's hosted application services helps companies stay focused on their core business by providing them cost-effective, low-maintenance ways to update their websites, manage their data and documents, leverage rapid application development and increase operational efficiency.

Attest, a division of Nacio Systems, develops GASP, a software product that enables companies to discover the software and hardware assets deployed

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across their enterprise. Using GASP, companies can remotely audit every computer on the corporate network, and, using GASP's extensive reporting capabilities, compare the results against their owned licenses. This allows companies to control software license and maintenance costs, stay compliant with software license terms, inventory for disaster recovery planning and make informed IT purchasing decisions. Attest will release a new version of GASP, GASP V7.0 in the 2nd quarter of 2005.

POWER SKI INTERNATIONAL, INC.

In our annual report for the fiscal year ended December 31, 2003, we described our Memorandum of Understanding, as amended, with PowerSki International, Inc. pursuant to which we and PowerSki were to merge, with Nova being the surviving corporation. Upon completion of further due diligence, we elected not to pursue the merger any further and made demand upon PowerSki for the repayment of approximately \$ 800,000, which we advanced to PowerSki for operating expenses pending the completion of the merger. We sent a demand for payment to Power Ski and have not received a satisfactory response. We have filed an action against PowerSki for the recovery of funds advanced.

KADFIELD, INC.

Effective December 31, 2004, we discontinued the operations of our subsidiary, Kadfield, Inc. We transferred all of the common stock of Kadfield, Inc. to our former President and director, Kenneth D.Owen, in consideration of the cancellation of a note payable to Mr. Owen in the amount of \$83,674.17

### ITEM 2. DESCRIPTION OF PROPERTY

Our principal executive and administrative offices are located at 1005 Terminal Way, Suite 110, Reno, Nevada.

### ITEM 3. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matters to a vote of our security holders during the fourth quarter of the fiscal year covered by this report.

## PART II

### ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

	LOW ---	HIGH ----
Q1-2004	\$ 0.02	\$ 0.03
Q2-2004	0.01	0.03
Q3-2004	0.01	0.01
Q4-2004	.50	3.35
Q 1-2003	\$ 0.01	\$ 0.03
Q 2-2003	0.01	0.08
Q 3-2003	0.02	0.05
Q 4-2003	0.03	0.04

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We have only one class of common stock. As of December 31, 2004, there were 1,052 shareholders of record for our common stock and a total of 4,981,332 shares of common stock issued and outstanding.

The holders of common stock are entitled to one vote per share of common stock on all matters to be voted on by the stockholders. There are no cumulative voting rights. Subject to preferences that may be applicable to any outstanding preferred stock, the holders of common stock are entitled to receive dividends, if any, as may be declared by the board of directors out of funds legally available for dividends. In the event of a liquidation, dissolution or winding up, the holders of common stock are entitled to share ratably in the net assets remaining after payment in full of all liabilities, subject to the prior rights of preferred stock, if any, then outstanding. There are no redemption or sinking fund provisions applicable to the common stock.

### DIVIDENDS

The Company has never paid cash dividends on its common stock. The declaration and payment of dividends is within the discretion of the Company's board of directors and will depend, among other factors, on earnings and debt service requirements as well as the operating and financial condition of the Company. At the present time, the Company's anticipated working capital requirements are such that it intends to follow a policy of retaining earnings in order to finance the development of its business. Accordingly, the Company does not expect to pay a cash dividend within the foreseeable future.

### RECENT SALES OF UNREGISTERED SECURITIES

The following is a description of unregistered securities sold during the period covered by this report including the date sold, the title of the securities, the amount sold, the identity of the person who purchased the securities, the price or other consideration paid for the securities, and the section of the Securities Act of 1933 under which the sale was exempt from registration as well as the factual basis for claiming such exemption.

Between January 1, 2004 and October 29, 2004, we issued an aggregate of \$260,000 of Convertible Promissory Notes to a select group of seven investors.

During fiscal year ended December 31, 2004, we issued 32,000,000 shares of our common stock to our then current President and CEO, Kenneth D. Owen as long term compensation.

Each of these transactions is considered exempt from the registration requirements of the Securities Act of 1933 in reliance upon the exemptions at Section 4(2) and/or 4(6) of said Act.

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### ITEM 6. 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

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Year ended December 31, 2004 compared to the Year ended December 31, 2003:  
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During 2004 and 2003, the Company has been providing working capital advances toward the development of recreational water sports products. On August 30, 2004, the Company acquired 51% of a dormant company in which further develop these products and a marine engine for use in these products. In the fourth quarter of 2004, the company ceased funding the development of these products to an outside company and expensed the amount it had previously advanced aggregating approximately \$723,500 as research and development costs. Accordingly, research and development costs increased by approximately \$1,209,700 in 2004. Selling expense also increased by \$30,000 in 2004 as a result of the above actions.

General and administrative expenses decreased by approximately \$922,900 in 2004 primarily due to the decrease in outside management fees in 2004 of approximately \$909,300. With the Company's development of its recreational water sports products, management has spent less effort identifying other business investment and acquisition opportunities.

Interest expenses aggregated approximately \$35,300 in 2004 compared to \$24,800 in 2003. The increase was due to Company borrowing an additional \$260,000 under convertible notes payable during 2004.

On July 21, 2003 the Company decided to dispose of Kadfield. The disposal was completed on December 31, 2004. The Company realized a gain of approximately \$139,500 as a result of the disposal 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.

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### FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

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As of December 31, 2004 compared to December 31, 2003:

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The Company's total assets of \$186,400 as of December 31, 2004 decreased by \$659,143 compared to assets as of December 31, 2003 primarily as a result of two factors. During the fourth quarter of 2004, the Company expensed approximately \$723,500 of advances as research and development costs resulting in the Company beginning to develop recreational water sports products itself rather than funding an outside company. Also, the Company incurred capital expenditures of approximately \$100,600 for equipment associated with its newly created subsidiary.

Total current liabilities aggregated \$1,042,322 as of December 31, 2004 compared to \$1,495,961 as of December 31, 2003. The decrease of approximately \$453,600 was a result of the following factors. On December 31, 2004, the Company completed its disposal of Kadfield. The liabilities of Kadfield aggregating approximately \$394,000 were assumed by the purchaser of the common stock of Kadfield. During the fourth quarter of 2004, the Company accrued additional professional fees of approximately \$152,800 relating to the development of its recreational water sports products. And, the Company raised an additional \$260,000 of convertible notes payable in 2004. However, holder of \$370,000 of notes payable converted their notes in the Company's common stock.

During 2004, the Company received additional advances from a related party of approximately \$98,900 for working capital purposes. In the fourth quarter of 2004, payables to related party aggregating approximately \$363,200 were exchanged into the Company's preferred stock. Also during the fourth quarter of 2004 the Company received advances under notes payable from the minority shareholder of its 51% owned subsidiary Aqua Extremes and two other individual of approximately \$436,500. These advances are to fund the development of the Company's recreational water sports products.

The Company frequently has not been able to make timely payments to its trade and other creditors. As of December 31, 2004, the Company had past-due payables in the amount of approximately \$149,600. Deferred payment terms had been negotiated with most of these vendors. The Company is also non-compliant with respect to certain federal and state payroll related taxes in the amount of approximately \$214,600. As a result, the Company has not been able to continue its research and development activities as planned. The Company is currently seeking sources of working capital financing sufficient to fund delinquent balances and ongoing research and development activities.

#### ITEM 7. FINANCIAL STATEMENTS

Our consolidated, audited, condensed financial statements including a balance sheet for the Company as of the year ended December 31, 2004 and audited



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statements of income, cash flows and changes in shareholders' equity up to the date of such balance sheet and the comparable period of the preceding year are attached hereto as Pages F-1 through F-19 and are incorporated herein by this reference.

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

During our two most recent fiscal years or any later interim period, we have had no disagreements with our certifying accountants on accounting and financial disclosures.

### ITEM 8A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Exchange Act, within the ninety days prior to the filing date of this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer. Based upon that evaluation, we concluded that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

## PART III

### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following persons constitute all of the Company's Executive

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### Officers and Directors:

NAME	AGE	POSITION
----	---	-----
Leslie I. Handler	67	President, Director
Arthur N. Robins	54	Chief Executive Officer, Director
James F. Abel, III	44	Corporate Secretary, Director
Greg K. Hoggatt	48	Director

Leslie I. Handler has been a director since August 1991 and has served as Corporate Secretary. From 1988 to 1992, Mr. Handler was president of Far West Commercial Finance, a subsidiary of Far West Federal Bank, Portland, Oregon. Since 1993, Mr. Handler has been a consultant to the banking industry.

Arthur N. Robins has been retired since 2000. He came out of retirement to become Chief Executive Officer. Prior to his retirement, Mr. Robins was Owner and Chief Executive Officer of several companies simultaneously, which were in manufacturing of recycled plastics. Mr. Robins became CEO in January 2005.

James F. Abel, III was the President of The Hines Group, Inc. a precision custom metal stamping company with headquarters in Owensboro, Kentucky. Mr. Abel is now retired.

Greg K. Hoggatt is a captain for Delta Airlines and resides in Pensacola, Florida.

The Company's Bylaws currently authorize up to seven directors. Each director is elected for one year at the annual meeting of stockholders and serves until the next annual meeting or until a successor is duly elected and qualified. Executive officers serve at the discretion of our board of directors. There are no family relationships among any of the directors and executive officers.

### CODE OF ETHICS.

Effective January 1, 2004, the Board of Directors adopted a Code of Ethics for Senior Financial Officers. The Code of Ethics was adopted pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission thereunder. A copy of the Code of Ethics will be made available upon request at no charge. Requests should be directed in writing to the Company at 1005 Terminal Way, Suite 110, Reno, Nevada 89502-2179

### ITEM 10. EXECUTIVE COMPENSATION

#### SUMMARY COMPENSATION TABLE

NAME AND

ANNUAL

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PRINCIPAL POSITION -----	YEAR ----	COMPENSATION -----	LONG TERM COMPENSATION -----
Kenneth D. Owen Former President/CEO	2004	\$ 0	320,000 shares of common stock

(a) The number of shares listed reflect a 1-for-100 reverse stock split, effective October 8, 2004

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS & MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth, as of April 15, 2005, the number and percentage of outstanding shares of common stock which, according to the information supplied to us, were beneficially owned by (i) each current director, (ii) each current executive officer, (iii) all current directors and executive officers as a group, and (iv) each person who, to our knowledge, is the beneficial owner of more than 5% of our outstanding common stock. Except as otherwise indicated, the persons named in the table below have sole voting and dispositive power with respect to all shares beneficially owned, subject to community property laws (where applicable).

TITLE OF CLASS -----	NAME AND ADDRESS OF BENEFICIAL OWNER -----	AMOUNT OF BENEFICIAL OWNERSHIP -----	PERCENT OF CLASS -----
Common Stock	Leslie I. Handler 382 Running Springs Dr. Palm Desert, CA 92276	-0-	0%
Common Stock	Arthur N. Robins 362 Gulf Breeze Pkwy, #130 Gulf Breeze, FL 32561	2,000	*
Common Stock	James F. Abel, III 3 Hilltop Rd. Owensboro, KY 42303	-0-	0%
Common Stock	Greg K. Hoggatt 333 Panferio Dr. Pensacola, FL 32561	-0-	0%
Common Stock (all officers and directors as a group-4 persons)		2,000	*

\* Less than one percent

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There were no reportable transactions during the period covered by this report.

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ITEM 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibits required to be attached by Item 601 of Regulation S-B are

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listed in the Index to Exhibits and are incorporated herein by this reference.

(b) Reports on Form 8-K.

The following reports on Form 8-K were filed during the period covered by this Form 10- KSB:

January 26, 2004	Item 5. Other Events and FD Disclosures; Item 7. Financial Statements and Exhibits
October 4, 2004	Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year. Item 9.01 Financial Statements and Exhibits
October 8, 2004	Item 8.01 Other Events
December 30, 2004	Item 5.01 Changes in Control of Registrant; Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year; Item 9.01 Financial Statements and Exhibits

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

	2004	2003
	-----	-----
Audit Fees	\$20,600	\$24,495
Audit related fees		
Review of annual, quarterly & other SEC filings	\$16,725	-
	-----	-----
	\$37,325	\$24,495
	=====	=====

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, hereunto duly authorized, this 3rd day of March, 2006.

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ENCOMPASS HOLDINGS, INC.

By: /s/ ARTHUR N. ROBINS

-----  
Chief Executive  
Officer

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

Signature	Title	Date
/s/ Leslie I. Handler Leslie I. Handler	President	March 3, 2006
/s/ Arthur N. Robins Arthur N. Robins	Chief Executive Officer	March 3, 2006

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
----	-----
	PLAN OF REORGANIZATION
2.1	* Articles and Agreement of Merger dated July 21, 1999
	ARTICLES OF INCORPORATION AND BY-LAWS

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- 3(i) \* Articles of Incorporation of First Colonial Ventures Ltd.dated March 25, 1985.
- 3(ii) \* Articles of Incorporation of Nova Communications Ltd. dated July 21, 1999.
- 3(iii) \* Certificate of Amendment of First Colonial Ventures Ltd. dated August 12, 1985.
- 3(iv) \* Certificate of Amendment of First Colonial Ventures Ltd. dated September 3, 1985.
- 3(v) \* Certificate of Amendment of First Colonial Ventures Ltd. dated February 3, 1992.
- 3(vi) \* Bylaws

MATERIAL CONTRACTS

SUBSIDIARIES

- 21 \* Aqua Xtremes, Inc.

CERTIFICATIONS

- 31.1 Rule 15d-14(a) certification of Leslie I. Handler.
- 31.2 Rule 15d-14(a) certification of Arthur N. Robins.
- 32.1 Section 1350 certification of Leslie I. Handler.
- 32.2 Section 1350 certification of Arthur N. Robins.

\* Incorporated herein by reference from filings previously made by the Company

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To the Stockholders  
Nova Communications Ltd.

We have audited the accompanying consolidated balance sheet of Nova Communications Ltd. as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive loss, net capital deficiency, and cash flows for each of the two years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003 and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the Company's significant operating losses, working capital deficit, and net capital deficiency raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 5 to the consolidated financial statements, the Company incorrectly reported the fixed percentage conversion feature of its notes payable of \$37,500 as of

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December 31, 2004 and \$147,000 as of December 31, 2003 and the amortization of the beneficial conversion feature of \$184,500 for the year ended December 31, 2004.



March 21, 2005, except with respect to Note 6  
as to which the date is August 19, 2005  
Portland, Oregon

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NOVA COMMUNICATIONS LTD.

Balance Sheets

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	December 31	
	2004	2003
	(restated)	(restated)
ASSETS		
Current assets:		
Cash	\$ 4,057	\$ 51,451
Receivable from related party	57,480	-
Note receivable, due within one year	-	9,557
Prepaid expenses	5,000	-
Current assets of discontinued operations, net	-	51,435
Total current assets	66,537	112,443
Equipment, less accumulated depreciation of \$21,710	101,896	1,278
Equipment of discontinued operations, net	-	140,221
Other assets:		
Advances receivable	18,000	513,506
Note receivable	-	15,317
Other assets of discontinued operations, net	-	62,811
Total other assets	18,000	591,634
	\$ 186,433	\$ 845,576

Continued on next page.

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NOVA COMMUNICATIONS LTD.

Balance Sheets (continued)

	December 31	December 31
	2004	2003
	(restated)	(restated)
LIABILITIES AND NET CAPITAL DEFICIENCY		
Current liabilities:		
Accounts payable	\$ 205,447	\$ 17,693
Payable to related party	17,693	224,791
Accrued payroll and payroll related liabilities	224,791	3,200
Income taxes payable	3,200	211,191
Other accrued liabilities	211,191	342,500
Convertible notes payable, net of unamortized discount due to beneficial conversion feature	342,500	-
Current liabilities of discontinued operations	-	-
Total current liabilities	1,004,822	-
Payable to related party	-	-
Notes payable to related parties	436,510	-
Net Capital Deficiency:		
Preferred stock; \$.001 par value; authorized 100,000 shares; outstanding 100,000 shares	100	4,981
Common stock; \$.001 par value; authorized 500,000,000 shares; outstanding 4,981,332 shares in 2004 (2,551,309 shares in 2003)	4,981	169
Common stock to be issued	169	23,208,171
Additional paid-in capital	23,208,171	(24,468,320)
Retained deficit	(24,468,320)	-
Net capital deficiency	(1,254,899)	-
	\$ 186,433	\$ 186,433

Continued on next page.

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NOVA COMMUNICATIONS LTD.

Consolidated Statements of Operations

Years ended De

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	2004	
	-----	
	(restated)	
Selling expenses	\$ 30,000	\$
General and administrative expenses	3,055,181	
Research and development expenses	1,209,705	
	-----	
	4,294,886	
Other operating income	5,550	
	-----	
Loss from operations	(4,289,336)	
Other expenses:		
Loss on available-for-sale investments	-	
Interest	(219,832)	
	-----	
Total other expenses	(219,832)	
	-----	
Loss before benefit for income taxes	(4,509,168)	
Provision for income taxes	800	
	-----	
Net loss from continuing operations	(4,509,968)	
Discontinued operations:		
Net gain on disposal, net of benefit for income taxes	139,517	
Net loss, net of benefit for income taxes	-	
	-----	
Net income (loss) from discontinued operations	139,517	
	-----	
Net loss	\$ (4,370,451)	\$
	=====	
Net income (loss) per common share:		
Continuing operations	\$ (1.259)	\$
	=====	
Discontinued operations	\$ .039	\$
	=====	

See accompanying notes.

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NOVA COMMUNICATIONS LTD.

Consolidated Statements of Comprehensive Loss

Years ended De  
2004

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	----- (restated)	
Net loss	\$ (4,370,451)	\$
Realized gain on available-for-sale investments	-	-
	-----	
Comprehensive loss	\$ (4,370,451)	\$
	=====	=
Comprehensive loss per common share	\$ (1.220)	\$
	=====	=

See accompanying notes.  
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NOVA COMMUNICATIONS LTD.

Consolidated Statements of Net Capital Deficiency  
January 1, 2003 (restated) through December 31, 2004 (restated)

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-----  
Shar  
-----

Balance at January 1, 2002

Effect of 1-for-100 reverse stock split

Common stock to be issued in exchange for long-term debt and interest

Common stock issued in exchange for notes payable and accrued liabilities to related parties

Common stock issued in exchange for services

Beneficial conversion feature of convertible notes payable

Comprehensive loss

-----

Balance at December 31, 2003

Common stock issued

Common stock to be issued in exchange for advances to subsidiary

Common stock issued upon conversion of notes payable and accrued interest

Common stock issued in exchange for accrued payroll

Common stock issued in exchange for services

Preferred stock issued in exchange for payable to related party

Beneficial conversion feature of convertible notes payable

Comprehensive loss

-----  
100  
-----  
=====

Balance at December 31, 2004

Continued on next page.  
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NOVA COMMUNICATIONS LTD.

Consolidated Statements of Net Capital Deficiency (continued)  
January 1, 2003 (restated) through December 31, 2004 (restated)

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Common stock		Common stock to be issued	Additional paid-in capital	Retained deficit	loss from available for-sale investments
Shares	Amount				
46,958,181	\$ 46,958	\$ -	\$ 13,797,842	\$ (15,508,400)	\$ (465,000)
(46,488,104)	(46,488)	-	46,488	-	
-	-	150	753,777	-	
100,000	100	-	922,097	-	
1,981,232	1,981	-	3,660,347	-	
-	-	-	147,000	-	
-	-	-	-	(4,589,469)	465,000
2,551,309	2,551	150	19,327,551	(20,097,869)	
50,000	50	(50)	-	-	
-	-	69	49,931	-	
870,023	870	-	401,747	-	
105,000	105	-	269,895	-	
1,405,000	1,405	-	2,720,996	-	
-	-	-	363,051	-	
-	-	-	75,000	-	
-	-	-	-	(4,370,451)	
4,981,332	\$ 4,981	\$ 169	\$ 23,208,171	\$ (24,468,320)	\$

See accompanying notes.

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NOVA COMMUNICATIONS LTD.

Consolidated Statements of Cash Flows

Years ended De

2004

(restated)

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Cash flows from operating activities:	
Net loss from continuing operations	\$ (4,509,968)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	-
Provision for uncollectible advances receivable	723,506
Common stock issued for services and compensation	2,722,401
Realized loss on available-for-sale investments	-
Amortization of beneficial conversion feature	184,500
Changes in assets and liabilities:	
Receivables	-
Deposits	-
Prepaid expenses	(5,000)
Accounts payable	51,910
Accrued liabilities	301,052
	-----
	(531,599)
Cash flows from discontinued operations	
	-
Cash flows from investing activities:	
Principal repayments on notes receivable	24,874
Advances paid	(178,000)
Advances paid on behalf of related parties	(57,480)
Capital expenditures	(100,618)
Net investing activities of discontinued operations	-
	-----
	(311,224)
Cash flows from financing activities:	
Advances from related parties	98,919
Borrowings from convertible notes payable	260,000
Borrowings from notes payable to related parties	436,510
Net financing activities of discontinued operations	-
	-----
	795,429
	-----
Net increase (decrease) in cash	(47,394)
Cash at beginning of year	51,451
	-----
Cash at end of year	\$ 4,057
	=====

See accompanying notes.

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement

December 31, 2004

1. Business and summary of significant accounting policies

-----  
Business: Nova Communications Ltd. (the "Company" or "Nova") is incorporated under the laws of the State of Nevada.

Business combinations and basis of consolidation: On August 30, 2004,



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the Company acquired 51% of 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. Realized Development, Inc. changed its name to Aqua Xtremes, Inc. ("Aqua") in December 2004. Aqua is developing recreational water sports products.

Also in December 2004, Aqua formed Xtreme Engines, Inc. ("Engines") and owns 100% of its common stock. Engines is developing a marine engine for use in recreational water sports products.

The 2004 consolidated financial statements include the accounts of Nova and its 51% owned subsidiary Aqua and Aqua's 100% owned subsidiary Engines. All intercompany accounts and transactions have been eliminated.

Losses exceed the minority interest in the equity capital of Aqua as of December 31, 2004. Accordingly, losses applicable to the minority interest are charged against Nova as there is no obligation of the minority stockholder to guarantee such losses. If future earnings of Aqua do materialize, Nova will be credited to the extent of such losses previously absorbed.

The 2003 consolidated financial statements include the accounts of Nova and its 100% owned subsidiary Kadfield, Inc. ("Kadfield"). 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. The Company disposed of its common stock of Kadfield effective December 31, 2004.

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 deposits their cash in financial institutions. At various times throughout the year, cash held in these accounts exceeded Federal Deposit Insurance Corporation limits. The Company has not experienced any losses as a result of these cash concentrations.

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

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

Investments: Investments are accounted for under the provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires that all applicable investments be classified as trading securities, available-for-sale securities, or hold-to-maturity

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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.

Impairment of long-lived assets: The Company assesses 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.

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.

Reporting comprehensive income: The Company reports and displays 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 for 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

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

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

Income taxes (continued): enactment date. The Company provides a valuation allowance for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

Net loss per common share: Net loss per common share is computed by

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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 3,582,652 for the year ended December 31, 2004 (2,264,375 for 2003). Convertible notes payable and common stock to be issued are not considered to be common stock equivalents as the effect on net loss per common share would be anti-dilutive.

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.

Reclassifications: Certain 2003 balances have been reclassified in the accompanying consolidated financial statements to conform to the 2004 presentation.

2. Operations  
-----

In the last trimester of 2004, Aqua began research and development of recreational water sports products. Funding for research and development has been provided by the minority shareholder of Aqua and other related parties.

The Company is dependent upon its ability to obtain additional capital and debt financing until the products are fully developed, manufactured, and marketed and operations of 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.

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

3. Cash flow information  
-----

Supplemental disclosure of cash flow information is as follows for the year ended December 31:

2004  
-----

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Cash paid for interest

\$

=====

Supplemental schedule of noncash financing activities are as follows for the year ended December 31:

2004

-----

Common stock issued in exchange for accrued payroll

\$ 27

=====

Common stock issued upon conversion of notes payable and accrued interest

\$ 40

=====

Preferred stock issued in exchange for payable to related party

\$ 36

=====

Common stock issued in exchange for long-term debt

\$

=====

4. Other accrued liabilities

-----

Other accrued liabilities consisted of the following at December 31:

2004

-----

Professional fees

\$ 19

Interest

2

Other

-----

Total other accrued liabilities

\$ 21

=====

5. Convertible notes payable

-----

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 conversion rates ranging from 50% to 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.

The Company accounted for the fixed percentage conversion feature of the notes payable under EITF 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios". Under EITF

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

5. Convertible notes payable (continued)  
-----

98-5, the beneficial conversion feature is calculated at the difference between the conversion price and the fair value of the common stock into which the debt is convertible at the commitment date. The portion of the proceeds from the note that represents the beneficial conversion feature is allocated to additional paid-in-capital. This debt discount is amortized to interest expense using the interest method over the life of the conversion feature. During the year ended December 31, 2004, the Company received proceeds of \$250,000 under convertible note agreements and computed a beneficial conversion amount of \$75,000 (the Company received proceeds of \$490,000 under convertible note agreements and computed a beneficial conversion amount of \$147,000 in 2003). The Company amortized \$184,500 of the beneficial conversion feature during the year ended December 31, 2004.

During 2004, holders converted \$370,000 of notes and \$32,617 of accrued interest into 870,023 shares of the Company's common stock.

6. Prior period adjustment  
-----

In 2004 and 2003 the Company incorrectly reported the fixed percentage conversion feature of its notes payable of \$37,500 as of December 31, 2004 and \$147,000 as of December 31, 2003 and the amortization of the beneficial conversion feature of \$184,500 for the year ended December 31, 2004. The adjustment resulted in a decrease in previously reported current liabilities by \$147,000; an increase of \$147,000 of previously reported additional paid-in-capital; and a decrease of previously reported net capital deficiency of \$147,000 as of December 31, 2003. The adjustment did not have any effect on previously reported net loss per share for the year ended December 31, 2003. The adjustment resulted in a decrease of previously reported current liabilities of \$37,500; an increase of \$75,000 of previously reported additional paid-in-capital; and an increase in previously reported net capital deficiency of \$109,500 as of December 31, 2004 and a decrease in previously reported net loss from operations and net loss of \$184,500 for the year ended December 31, 2004. The adjustment also resulted in an increase in previously reported net loss per common share from continued operations and comprehensive loss per common share by \$.52 for the year ended December 31, 2004.

7. Notes payable to related parties  
-----

Notes payable to related parties are due to the minority stockholder of Aqua and two other individuals. The borrowings are unsecured, non-interest bearing, and due on demand. These individuals have agreed not to demand repayment before April 2006.

8. Other related party transactions  
-----

The Company occasionally pays for expenses on behalf of Palaut Management, Inc. ("Palaut"). Palaut provides the Company with management consulting services. Close family members of a stockholder

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of Nova control Palaut Management, Inc.

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

8. Other related party transactions  
-----

Receivable from and payable to related party reported as current assets and current liabilities are amounts owed from and to Palaut.

In March 2003, the Board of Directors authorized the issuance of 100,000 shares of common stock of the Company in exchange for notes payable of \$625,000 and accrued liabilities of \$297,197 to Palaut. Management of the Company determined the number of shares to be issued based on the closing bid price of the Company's common stock at the date of issuance after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded.

The long-term payable to a related party reported in 2003 was due to a company related to the President of Nova. The advances were unsecured, non-interest bearing, and due on demand. In December 2004, the Board of Directors agreed to exchange this payable into 200,000 shares of preferred stock of the Company.

9. Preferred stock  
-----

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.

In December 2004, the Company designated all of its authorized preferred shares, consisting of 100,000 shares as Series "A". On January 17, 2005, the Board of Directors of the amended the rights of its 100,000 Series "A" preferred stock to be convertible, at the option of the Company, into 1,000,000 shares of its common stock. The Company has reserved 1,000,000 shares of its common stock to be issued in the event of conversion of its Series "A" preferred stock.

Also on January 17, 2005, the Board of Directors of the Company increased the authorized preferred shares to 200,000.

10. 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

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of the trading prices for its common stock and the limited volume of shares being traded.

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

10. Common stock (continued)  
-----

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.

In December 2004, the Board of Directors authorized the issuance of 68,965 shares of stock to an individual in exchange for \$50,000 of payables of Aqua. Management of the Company valued the shares issued at \$.72 per share, which represented a 50% discount from the closing bid price of the Company's common stock on the date of issuance. The Company recorded the amount as advances to subsidiaries.

In 2004 the Company issued an aggregate of 1,092,500 shares of its common stock in exchange for consulting and management 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 after considering the historical trend of the trading prices for its common stock and the limited volume of shares being traded. The Company recorded consulting fees aggregating \$1,823,401 during the year ended December 31, 2004 as a result of the issuances.

In March 2003, the Board of Directors authorized the issuance of 100,000 shares of common stock of the Company in exchange for notes payable of \$625,000 and accrued liabilities of \$297,197 to a related party. Management of the Company valued the shares issued at \$.09 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 December 2003, the Board of Directors authorized the issuance of 150,000 shares of common stock of the Company to PFK Development Group in exchange for a note payable of \$736,427 and accrued interest of \$17,500. Management of the Company valued the shares issued at \$.05 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.

During 2003, the Board of Directors authorized the issuance of an aggregate of 1,880,232 shares of common stock of the Company in exchange for services. Management of the Company valued the shares issued at the closing bid price of the Company's common stock on the

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date of issuance after considering the historical

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

10. Common stock (continued)  
-----

trend of the trading prices for its common stock and the limited volume of shares being traded. The Company recorded consulting fees aggregating \$3,557,328 during the year ended December 31, 2003 as a result of the issuances.

11. Stock based compensation  
-----

During 2004, the Company issued 215,000 shares of its common stock to its president as compensation for services. Compensation expense of \$525,000 was recorded for 2004 for the fair value of the services rendered.

During 2004, the Company issued an aggregate of 97,500 shares of its common stock to employees as compensation for services. Compensation expense of \$99,000 was recorded for 2004 for the fair value of the services rendered.

In December 2003, the Company issued 90,000 shares of its common stock to its president as compensation for services. Compensation expense of \$90,000 was recorded for 2003 for the fair value of the services rendered.

During 2003, the Company issued an aggregate of 11,000 shares of its common stock to an employee as compensation for services. Compensation expense of \$15,000 was recorded for 2003 for the fair value of the services rendered.

12. Income taxes  
-----

Deferred income taxes consisted of the following at December 31:

	2004	
	-----	-----
Deferred tax assets:		
Net operating loss carryovers	\$ 6,737,000	\$
Allowance for uncollectible accounts	246,000	
	-----	-----
Deferred tax assets	6,983,000	
Valuation allowance for deferred tax assets	(6,983,000)	
	-----	-----
Net deferred income taxes	\$ -	\$
	=====	=====

The components of the provision for income taxes are as follows for the



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years ended December 31:

	2004	
	-----	-----
State of California -		
Currently payable	\$          800	\$
	=====	=====

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

12. Income taxes (continued)

-----

The provision for income taxes is included in the accompanying statement of operations under the following captions for the years ended December 31:

	2004	
	-----	-----
Continuing operations	\$          800	\$
Discontinued operations	-	
	-----	-----
	\$          800	\$
	=====	=====

Reconciliation of income taxes computed at the Federal statutory rate of 34% to the benefit for income taxes is as follows for the years ended December 31:

	2004	
	-----	-----
Tax at statutory rates	\$  1,422,951	\$
Differences resulting from:		
State tax, net of Federal tax benefit	528	
Non-deductible and other items	321	
Change in deferred tax valuation allowance	(1,423,000)	
	-----	-----
Provision for income taxes	\$          800	\$
	=====	=====

The Company has approximately \$19,814,700 in Federal and State of California net operating losses which, if not utilized, expire through 2024. Utilization of the net operating loss carryforwards could be limited due to restrictions imposed under Federal and state laws upon a

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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 December 31, 2004 and 2003.

13. Recently issued pronouncements  
-----

In December 2004, the FASB issued a revision to SFAS 123, "Share-Based Payment, an amendment of FASB Statements Nos. 123 and 95," that addresses the accounting for share-based payment transactions in which a Company receives employee services in exchange for either equity instruments of the Company or liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. This statement would eliminate the ability to account for share-based compensation transactions using the

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NOVA COMMUNICATIONS LTD.

Notes to Consolidated Financial Statement  
December 31, 2004

13. Recently issued pronouncements (continued)  
-----

intrinsic method and generally would require that such transactions be accounted for using a fair-value-based method and recognized as expense in the consolidated statement of operations. The effective date of this standard is for periods beginning after June 15, 2005. The Company previously adopted the fair-value-based method of valuing share-based payments and management does not expect any further impact of this new standard to have a material effect on its financial position, results of operations and cash flows.

In July 2004, the Emerging Issues Task Force issued a draft abstract for EITF Issue No. 04-08, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF 04-08"). EITF 04-08 reflects the Task Force's tentative conclusion that contingently convertible debt should be included in diluted earnings per share computations regardless of whether the market price trigger has been met. If adopted, the consensus reached by the Task Force in this Issue will be effective for reporting periods ending after December 15, 2004. Prior period earnings per share amounts presented for comparative purposes would be required to be restated to conform to this consensus and the Company would be required to include the shares issuable upon the conversion of its convertible notes payable in the diluted earnings per share computation for all periods during which the convertible notes payable are outstanding. Management does not expect the implementation of this new standard to have a material impact on its computation of diluted earnings per share.

In December 2004, the Financial Accounting Standards Board Statement issued SFAS No. 153, "Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29", by eliminating the exception for non-monetary exchanges of similar productive assets and replaces it with a general

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exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No.151is effective for a fiscal year beginning after June 15, 2005, and implementation is prospectively. Management does not expect the implementation of this new standard to have a material impact on its financial position, results of operations and cash flows.

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