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NORTHSTAR ELECTRONICS INC

Form 10QSB

August 15, 2002

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES  
AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE EXCHANGE ACT

For the transition period from n/a to n/a

333-90031

Commission file number

Northstar Electronics, Inc.

Exact name of small business issuer as specified in its charter

Delaware

State or other jurisdiction of organization

#33-0803434

IRS Employee Identification No.

Suite # 1455 - 409 Granville Street,  
Vancouver, British Columbia,  
Canada V6C 1T2  
Address of principal executive offices

(604) 685-0364

Issuer's telephone number

Not Applicable

Former name, former address and former fiscal year, if changed since last  
report

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of  
securities under a plan confirmed by a court.

Yes  No

Not Applicable

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## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

NORTHSTAR ELECTRONICS, INC.  
Consolidated Financial Statements  
Six Months Ended June 30, 2002  
U.S. Dollars  
Unaudited  
Prepared by management

Consolidated Balance Sheets at June 30, 2002 and at December 31, 2001  
Consolidated Statements of Operations for the Three and Six Month Periods Ended  
June 30, 2002  
Consolidated Statements of Changes in Stockholders' Equity for the Six Months  
Ended June 30, 2002  
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2002  
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SIGNATURES.

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NORTHSTAR ELECTRONICS, INC.  
 Consolidated Balance Sheets  
 Unaudited  
 U.S. Dollars

	June 30	December 31
	2002	2001
<b>ASSETS</b>		
Current		
Cash	\$31,824	\$ 39,699
Receivables	55,211	139,453
Inventory and work in progress	184,858	107,257
Prepaid expenses	10,837	5,398
Total Current Assets	282,730	291,807
Property and Equipment	90,245	91,903
Total Assets	\$372,975	\$383,710
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities	\$270,117	\$325,075
Loans payable	-	6,778
Current portion of long term debt	215,000	211,208
Total Current Liabilities	485,117	543,061
Long Term Debt	440,442	428,808
Due to Cabot Management Limited	59,211	56,249
Due to Director	26,093	24,401
Total Liabilities	1,010,863	1,052,519
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock		
Authorized		
100,000,000 shares of common stock with a par		
value of \$0.0001 each		
20,000,000 shares of preferred stock with a par		
value of \$0.0001 each		
Issued and outstanding		
10,108,102 shares of common stock	1,010	794
(7,942,009 December 31, 2001)		
Additional Paid in Capital	1,583,819	1,146,447
Other Comprehensive Income	16,618	37,308
Deficit	(2,239,335)	(1,853,358)
Total Stockholders' Equity (Deficit)	(637,888)	(668,809)
Total Liabilities and Stockholders' Equity	\$372,975	\$383,710

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NORTHSTAR ELECTRONICS, INC.  
 Consolidated Statements of Operations  
 Three Months and Six Months Ended June 30  
 Unaudited  
 U.S. Dollars

	Three Months		Six Months	
	2002	2001	2002	2001
Sales	\$167,526	\$201,933	\$364,778	\$554,969
Cost of goods sold	97,352	44,951	298,140	130,054
Gross margin	70,174	156,982	156,638	424,915
Other income	(6,062)	13,113	98	14,715
	64,112	170,095	156,736	439,630
Expenses				
Salaries	126,868	131,264	220,025	236,522
Consulting	25,920	0	54,523	0
Professional fees	(6,533)	36,590	13,286	87,876
Value of Director's uncompensated services	0	14,450	0	37,700
Advertising and marketing	21,535	10,729	35,548	28,955
Rent	20,154	16,759	40,123	34,311
Research and development	35,035	39,940	63,700	55,547
Investor relations	19,651	0	33,367	0
Office and administration	11,705	15,057	21,749	26,501
Travel and business development	2,593	15,681	11,943	24,672
Interest on debt	10,302	9,208	19,872	16,275
Telephone and utilities	7,198	5,738	14,253	10,386
Amortization	921	1,363	2,761	2,959
Proposal development costs	8	0	7,020	0
Repairs and maintenance	(267)	0	3,765	0
Transfer agent fees	508	0	778	0
Total expenses	275,598	314,314	542,713	561,704
Net income (loss) for period	\$ (181,876)	\$ (144,219)	\$ (385,977)	\$ (122,074)
Net income (loss) per share	\$ (0.02)	\$ (0.02)	\$ (0.04)	\$ (0.02)
Weighted average number of shares Outstanding	9,513,987	7,681,737	8,841,912	7,704,807

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NORTHSTAR ELECTRONICS, INC.  
 Consolidated Statement of Changes in Stockholders' Equity  
 Six Months Ended June 30, 2002  
 Unaudited  
 U.S. Dollars

	Shares	Amount	Additional Paid in Capital	Other Compre- hensive Income	Accumu- lated Deficit	Total Stockholder Equity
(Deficit)						
Balance December 31, 2001	7,942,009	\$794	\$1,146,447	\$37,308	\$(1,853,358)	\$(668,809)
Net loss for six months	-	-	-	-	(385,977)	(385,977)
Other comprehensive credits (debits)	-	-	-	(20,690)	-	(20,690)
Issuance of common stock for cash	1,889,950	189	585,978	-	-	586,167
Share issuance Cost	-	-	(212,910)	-	-	(212,910)
Exercise of stock option	78,123	7	-	-	-	7
Issuance of common stock for services	198,020	20	64,304	-	-	64,324

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Balance  
 June 30,  
 2002                    10,108,102 \$1,010    \$1,583,819 \$16,618    \$(2,239,335)    \$(637,888)

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NORTHSTAR ELECTRONICS, INC.  
 Consolidated Statement of Cash Flows  
 Six Months Ended June 30, 2002  
 Unaudited  
 U.S. Dollars

	2002	June 30 2001
Operating Activities		
Net income (loss)	\$ (385,977)	\$ (122,074)
Adjustments to reconcile net income (loss) to net cash used by operating activities		
Amortization	2,761	2,959
Issuance of common stock for services	64,324	65,831
Uncompensated services	0	37,700
Changes in operating assets and liabilities	(56,735)	(12,505)
Net cash provided by (used by) operating activities	(375,627)	(28,089)
Investing Activity		
Acquisition of property and equipment	(1,103)	(14,111)
Financing Activities		
Issuance of common stock - net proceeds	373,257	10
Increase (repayment) of long term debt	11,634	17,406
Due to Cabot Management Limited	2,962	(2,420)
Advances from (repayment to) director	1,692	(4,556)
Net cash (used) provided by financing activities	389,545	10,440
Effect of foreign currency translation on cash	(20,690)	3,636
Inflow (outflow) of cash	(7,875)	(68,124)
Cash, beginning of period	39,699	125,602
Cash, end of period	\$ 31,824	\$ 57,478

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### Supplemental information

Interest paid	\$19,872	\$16,275
Shares issued for services	198,020	201,253
Corporate income taxes paid	\$0	\$0

### NORTHSTAR ELECTRONICS, INC.

Notes to Consolidated Financial Statements

Six Months Ended June 30, 2002

Unaudited

U.S. Dollars

#### 1. 1. ORGANIZATION AND BASIS OF PRESENTATION

These financial statements include the accounts of Northstar Electronics, Inc. ("the Company") and its wholly owned subsidiaries Northstar Technical Inc. ("NTI") and Northstar Network Ltd. ("NN"). All inter company account Balances and transactions are eliminated. The Company was incorporated May 11, 1998 in the State of Delaware and had no operations other than organizational activities prior to the January 1999 merger with NTI described below. The Company's business activities are conducted principally in Canada but these financial statements are prepared in accordance with accounting principles generally accepted in the United States with all figures translated into United States dollars for reporting purposes.

On January 26, 1999 the Company completed the acquisition of 100% of the Shares of NTI. The Company, with the former shareholders of NTI receiving a majority of the total shares then issued and outstanding, effected the merger through the issuance of 4,901,481 shares of common stock from treasury. The transaction has been accounted for as a reverse take over resulting in the consolidated financial statements including the results of operations of the acquired subsidiary prior to the merger.

These unaudited consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in

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the United States for interim financial information, are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's December 31, 2001 Form 10-KSB.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at June 30, 2002 and the consolidated results of operations and the consolidated statement of cash flows for the six months then ended. The results of operations for the six months ended June 30, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year.

### 2. COMMON STOCK

During the six months ended June 30, 2002, the following shares of common Stock were issued:

For services	198,020
For cash	1,889,950
Pursuant to options	78,123
	-----
	2,166,093
	-----

The above common shares issued for services received represent fair value at the market value of those services.

### Item 2. Management's Discussion and Analysis or Plan of Operation.

The following discussion should be read in conjunction with the Accompanying unaudited consolidated financial statements prepared by management for the six month periods ended June 30, 2002 and June 30, 2001 and the audited consolidated financial statements for the twelve months ended December 31, 2001 as presented in the Company's Form 10KSB.

Although the Company has experienced a net loss this quarter, it has expended considerable effort in developing new business in new markets for NETMIND and for new design and contract manufacturing work.

Funding has been approved for the AQUACOMM sonar technology development program by the Canadian Government. The AQUACOMM project funding will be received over a period of three years. The first progress payment is expected to be received in October, which will include reimbursement for work done over the past year.

### Special Note Regarding Forward Looking Statements

Certain statements in this report and elsewhere (such as in other filings by the company with the Securities and Exchange Commission ("SEC"), press releases, presentations by the company of its management and oral statements) may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and "should," and variations of these words and similar expressions, are intended to identify these forward-looking statements. Actual results may materially differ from any forward-looking statements. Factors that might cause or contribute to such differences include, among others, competitive pressures and constantly changing technology and market acceptance of the company's products and services. The company undertakes no obligation to publicly release the result of any revisions to these forward-looking



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statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

### The Company's Services

The Company is a Multiple Applications underwater sonar technology developer, A defense electronics manufacturer and a defense systems integrator.

The Company's operations currently are those of its wholly owned subsidiaries Northstar Technical Inc. (NTI) and Northstar Network Ltd. (NN) and it is in this context that the company's services are described.

We have three main activities: underwater wireless communications, electronic contract manufacturing and system integration.

### Underwater Wireless Communications

#### The NETMIND System

The Company's first underwater sonar product based on our core technology was the NETMIND system. NETMIND's market is the world's commercial fishing industry and government oceanic research agencies. One of our largest customers is the United States National Oceanic and Atmospheric Administration (NOAA).

NETMIND is both a conservation tool as well as an efficiency tool. Electronic sensors attached to a fishing trawl measure the height and width of the net opening, the water temperature, the depth of the net, the amount of fish caught plus other parameters. The sensor information is transmitted via a wireless communications link back to the ship.

NETMIND helps prevent over fishing and allows fishermen to catch fewer fish and still make profits. This gives regulators flexibility in reducing quotas when attempting to conserve limited fish stocks.

Sales for NETMIND have been somewhat slower than expected during this six months period. However, with expanding sales in Europe, we anticipate an upswing in activity in the second half of the fiscal year.

#### The AQUACOMM Project

The AQUACOMM project is the development of new, leading edge multiple application sonar technologies and products for a variety of industries. These include defense, offshore oil and gas, commercial fishing, oceanography, marine environment and marine transportation. The company's funding for AQUACOMM totaling US\$2,394,000 includes \$2,040,000 from the Canadian federal government comprising \$1,420,000 from the Atlantic Innovation Fund (announced July 9, 2002), \$230,000 from the National Research Council (announced August 14, 2002) and \$390,000 from Scientific Research tax credits (cash refunds made after each fiscal year end based on eligible research and development expenses). The balance is being funded through equity financing. The AQUACOMM development is scheduled to last three years.

The Company intends to use its Venture Technology Business Model to maximize the success of the new AQUACOMM technologies. In this model, our core technology is invested in partnerships with established companies in the different industry sectors.

One example of our modus operandi would be the co-development of a military underwater communications system. We would develop the 'wet' end and a large defense contractor would develop the 'dry' end. The

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defense contractor, being well established in the field, would be responsible for product introduction, marketing and sales. Another example is the development of a mooring line monitoring system for the offshore oil and gas industry. We expect to have such a system ready for commercial sale by the second quarter of 2003 and we intend to market it through a strategic alliance with an international oil field company.

Should our Venture Technology Business Model prove to be successful, we intend to provide up to ten new products arising from the AQUACOMM project to be sold by these well established companies in their sectors of influence.

### Electronic Contract Manufacturing

In the fall of 1999 we signed a contract with Lockheed Martin, Manassas, Virginia to fabricate and test control consoles for Navy submarines. This contract was successfully completed in early 2001 and a follow-on contract was received from Lockheed Martin which was completed in the fall of 2001. Further console contracts are expected in the future from Lockheed Martin.

We are attempting to expand our electronic contract manufacturing business with our current customers, as well as with customers in the offshore oil and gas, transportation and communication industries.

### System Integration

The Company has created a novel approach to securing and executing large defense contracts by bringing together affiliate companies. The overall capability, which is substantial, is presented to the prime contractors. To date, a memorandum of understanding has been signed with Lockheed Martin Canada to jointly pursue the \$2.0 billion Maritime Helicopter Project.

### Subsequent Events

Subsequent to June 30, 2002 the Company issued 406,688 shares of common stock for cash of \$150,000.

### Results of Operations

Comparison of the three and six months ended June 30, 2002 with the three and six months ended June 30, 2001:

Revenue for the three month period ended June 30, 2002 was \$167,526 compared to \$201,933 of revenue recorded during the same period of the prior year. This comparative decrease is the result of a slow down in the fishing industry world wide, which impacted on the sales of the NETMIND systems. Revenue for the six month period ended June 30, 2002 was \$364,778, down from \$554,969 in the prior period for the same reason. Gross profits decreased from \$424,915 (76%) in the prior period to \$156,638 (57%) in the current period. The decrease in dollars was due to the fact that the current period does not include any revenues from contract sales. Therefore, in the absence of a console contract during the first two quarters of 2002, the gross margin is lower than the prior year's comparative quarters. The Company continues to negotiate for subsequent material contracts with Lockheed Martin and others.

The net loss for the three month period ended June 30, 2002 was \$(181,876) compared to a net loss of \$(144,219) for the three months ended June 30, 2001. Over this past quarter, the Company continued to invest considerable resources in seeking out additional and future contract manufacturing opportunities and is confident that the efforts will return positive results to the Company over the ensuing months and years.

During the two quarters the Company expended \$136,000 on the development of its Network business concept. To date, Network has generated no revenues.

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Network continues to pursue the \$2.0B Maritime Helicopter Project as one of Lockheed Martin Canada's partners. This contract is now expected to be awarded in 2004. Network is also actively attempting to secure a first contract on the Joint Strike Fighter program in the United States, having already signed Memoranda of Interest with Lockheed Martin and four of its partner companies. A large thrust of Network recently has been in the anti-terrorism field. Specifically, Network is working towards projects that utilize its sonar and marine engineering expertise.

A highly significant event for the Company was the acquisition of specialized sonar and transducer technology used in the NETMIND system. Northstar is now producing its own sonar transducers at a lower cost to the Company than when they were purchased outside of the Company. This new capability shortens the time it takes to develop enhancements to Company products or new sensors and will positively affect future gross margins. This new technology will also allow the Company to expand its acoustic capabilities into military and anti terrorist applications. We are actively pursuing contracts in these areas and we expect to see results later this year.

During the quarter the Company increased expenditures on the marketing and advertising of its NETMIND system and expanded awareness of the NETMIND system through trade shows and a growing distribution network including Ireland and the Scandinavian countries. The new Bottom Contact Sensor was Well received by our fishing industry customers and by government researchers. The Company continued on its program towards extending its underwater wireless communication technology into additional applications and expended further effort in developing proposals for financing of a major product development program.

Comparison of Financial Position at June 30, 2002 with June 30, 2001  
The Company reduced its working capital deficit at June 30, 2002 to \$(202,387) with current liabilities of \$485,117 in excess of current assets of \$282,730. At December 31, 2001 the Company had a working capital deficit of \$251,254. Included in current liabilities is the repayment in full of a \$160,000 debenture due July 3, 2002. This debenture was refinanced. The Company intends to finance its working capital shortfall by the issuance of shares of its common stock, increased revenues and the recovery of certain expenses under the AQUACOMM project.

### Liquidity and Capital Resources

The Company has increased its Shareholder's Deficit as a result of its efforts to expand its current markets and to secure future contract work. During the two quarters the Company issued 1,889,950 shares of common stock for gross proceeds of \$585,978 pursuant to a Regulation S offering. Subsequent to June 30, 2002 the Company received \$150,000 for a total of \$735,978 pursuant to that same offering.

The Company has outstanding a private placement unit offering pursuant to Regulations D and S for the issuance of up to 700,000 units at \$0.35 per unit. Each unit consists of one common share plus two warrants: one A warrant exercisable at \$0.50 to acquire one common share and one B warrant exercisable at \$0.75 to acquire one common share.

## PART II - OTHER INFORMATION

Item 1. Legal Proceedings.  
No change since previous filing.

Item 2. Changes in Securities.

Options Granted	Date	Exercise Price	Expiry Date
None	-	-	-

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Common Stock Issued	Date	Consideration
21,759	January, 2002	\$ 7,949
186,704	February, 2002	\$ 56,012
769,400	March, 2002	\$259,510
383,514	April, 2002	\$131,385
308,278	May, 2002	\$ 88,408
496,438	June, 2002	\$102,331

Item 3. Defaults Upon Senior Securities.  
No change since previous filing.

Item 4. Submission of Matters to a Vote of Security Holders.  
No change since previous filing.

Item 5. Other Information.  
No change since previous filing.

Item 6. Exhibits and Reports on form 8-K.  
EXHIBIT 99.01

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Wilson Russel, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Northstar Electronics, Inc. on Form 10-QSB for the quarterly period ended June 30, 2002, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report fairly presents in all material respects the financial condition and results of operations of Northstar Electronics, Inc.

Date: August 15, 2002

By: /s/ Wilson Russell

-----  
Name: Wilson Russell  
Title: Chief Executive Officer and  
Chief Financial Officer

### 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.

August 07, 2002

Northstar Electronics, Inc.  
(Registrant)  
By: /s/ Wilson Russell

Dr. Wilson Russell, PhD  
President and Principal Financial Officer