

NORTHSTAR ELECTRONICS INC
Form 10QSB
May 15, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-QSB

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED **March 31, 2007****

**TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
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 incorporation or 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

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 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 No

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**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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**

Applicable only to corporate issuers

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Common shares as of May 1, 2007: 25,441,632

Transitional Small Business Disclosure Format (check one):

Yes No

NORTHSTAR ELECTRONICS

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

NORTHSTAR ELECTRONICS, INC.

Consolidated Balance Sheets

U.S. Dollars

	March 31		
	December 31		
	<u>2007</u>	<u>2006</u>	
ASSETS			unaudited audited
Current			
Cash			
	\$ 29,504		
	\$ 24,300		
Receivables			
	140,032		
	133,664		
Inventory and work in progress			
	264,270		
	257,207		

Prepaid expenses

25,638

51,975

Total Current Assets

459,444 467,146

Intangible asset

24,900 26,019

Property and equipment

43,360

48,716

Total Assets

\$527,704 \$541,881

LIABILITIES

Current

Accounts payable and accrued liabilities

\$733,282 \$817,567

Loans payable

69,810

69,428

Deferred revenue

274,174 279,696

Current portion of long term debt

169,668

140,232

Total Current Liabilities

1,246,934 1,306,923

Long term debt

945,682

914,045

Due to Cabot Management Limited

90,510

90,635

Due to Directors

210,024

170,372

Total Liabilities

2,493,150 2,481,975

STOCKHOLDERS EQUITY

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

25,019,632 shares of common stock

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2,502	2,252
(22,519,132 December 31, 2006)	

Additional paid in capital

4,543,506	4,365,236
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Other comprehensive income

(loss)

(179,767)

(183,349)

Deficit

<u>(6,331,687)</u>	<u>(6,124,233)</u>
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Total Stockholders Equity (Deficit)

<u>(1,965,446)</u>	<u>(1,940,094)</u>
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Total Liabilities and Stockholders Equity

<u>\$527,704</u>	<u>\$541,881</u>
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See notes to the consolidated financial statements

See notes to the consolidated financial statements

See notes to the consolidated financial statements

See notes to the consolidated financial statements

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NORTHSTAR ELECTRONICS, INC.

Notes to Consolidated Financial Statements

Three Months Ended March 31, 2007

Unaudited

U.S. Dollars

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. (NNL). All inter company 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 2000 merger with NTI described as follows: On January 26, 2000 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.

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.

These unaudited consolidated interim financial statements have been prepared by management in accordance with accounting principles generally accepted in 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, 2006 Form 10-KSB.

In the opinion of the Company's management, this consolidated interim financial information reflects all adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2007 and the consolidated results of operations and the consolidated cash flows for the three months then ended. For the three months ended March 31, 2007, 33% of the Company's revenues were generated from one contract (March 31, 2006, 49% of the Company's revenues were generated from one contract). The Company is continually marketing its services for follow on contracts.

The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the entire fiscal year.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the three months to March 31, 2007 the Company incurred a net loss of \$207,454 (year to December 31, 2006: \$969,286) and at March 31, 2007, had a working capital deficiency (an excess of current liabilities over current assets) of \$787,490 (December 31, 2006: \$839,777), including \$169,668 of long term debt due within one year (December 31, 2006: \$140,232).

Management has undertaken initiatives for the Company to continue as a going concern: for example, the Company is negotiating to secure an equity financing in the short term and is in discussions with several financing firms. The Company also expects to increase second quarter 2007 revenues from sales of its NETMIND system and related products. As well, the Company has been awarded a submarine control console spare-parts manufacturing contract that will result in increased revenue. These initiatives are in recognition that the Company to continue as a going concern it must generate sufficient cash flow to cover its obligations and expenses. In addition, management believes these initiatives can provide the Company with a solid base for profitable operations, positive cash flows and reasonable growth. Management is unable to predict the results of its initiatives at this time. Should management be unsuccessful in its initiative to finance its operations the Company's ability to continue as a going concern is uncertain. These financial statements do not give effect to any adjustments to the amounts and classifications of assets and liabilities which might be necessary should the Company be unable to continue its operations as a going concern.

2.

COMMON STOCK

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During the three months ended March 31, 2007 the following shares of common stock were issued:

For services: 500,500 shares fairly valued at \$44,270, the market value of those services

For cash: 2,000,000 shares for \$150,000

3.

LONG TERM DEBT

Balance due to Atlantic Canada Opportunities Agency ("ACOA")

December 31, 2006

\$1,054,277

Increase in ACOA funding during the quarter

61,073

Balance due to ACOA March 31, 2007 1,115,350

Less current portion

169,668

\$ 945,682

4.

REVENUE

Three months 2007 Three months 2006

Revenue consists of: NETMIND sales \$107,706 \$181,118

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Contract sales	62,621	311,001
Government assistance	<u>17,205</u>	<u>144,824</u>
	<u>\$187,532</u>	<u>\$636,943</u>

5.

CONTINGENCIES

(i) The Company is a defendant in a lawsuit commenced against them in 1999 by their former master distributor. The former distributor has alleged that the Company has interfered with the ability of the former distributor to sell products. The Company has filed a counter claim for monies owing by the former distributor to the Company.

(ii) The Company is contingently liable to repay \$1,997,144 in assistance received under the Atlantic Innovation Fund. The assistance is repayable annually at the rate of 5% of gross revenues from sales of products resulting from the Aquacom research and development project. Gross revenues are to be calculated for the fiscal year immediately preceding the due date of the respective payment. Repayment is to continue until the assistance is repaid in full.

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 information for the three month periods ended March 31, 2007 and March 31, 2006 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2006 as presented in the Form 10KSB.

Although the Company has experienced a net loss this quarter, it continues to expend considerable effort in developing new markets for NETMIND, in developing new advanced sonar products, and in securing new contracts for the contract manufacture of military/government systems, submarine command and control consoles, multi mode fiber optic cables for military fighter planes, and precision machined parts and other components for defense systems.

The Company believes that its overall business prospects look promising and anticipates increased revenues in the near to medium future.

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 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, through its subsidiaries, is an underwater sonar technology developer (USTD), a defense electronics contract manufacturer (CM) and a defense systems integrator (DSI).

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Underwater Sonar Products and Technologies

a) 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 has been 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 and 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. NETMIND sales decreased from the same period last year due to introduction and assessment delays with the new Digital Receiver Upgrades and Net Symmetry System. However, we expect revenues to rebound in the second quarter as the testing and acceptance will be completed with the respective dealers.

b) Products and Technology from The AQUACOMM Project

The Net Symmetry System is the first commercial sonar product from the Aquacom project. It was introduced to the fishing market with initial sales coming from Spain. In addition, the first live testing in Ireland of the new Pair/Twin Trawl System took place. A potential substantial market exists in Ireland, Scotland and the surrounding regions.

c) Defense Sonar System

The Company is a subcontractor on Lockheed Martin's anti terrorism Swimmer Detection System (SDS). The SDS is a wide band high frequency sonar system designed specifically to detect and classify underwater terrorist threats. The Company, in collaboration with Lockheed Martin Canada, is also involved in the design of a wide band sonar projector. Northstar and Lockheed Martin are considering utilizing its design in several military sonar products.

Defense Contract Manufacturing

The Company continued the final stages of its submarine command and control console contract issued by Lockheed Martin Naval Electronics and Surveillance Systems, Manassas, Virginia, in 2005. Work continued through the first quarter of 2007 and we expect to complete it during the second quarter. Several similar manufacturing contracts for submarine consoles are expected in 2007.

Subsequent to the completion of the first quarter, the Company, through its wholly owned subsidiary, Northstar Network Ltd., received a Master Purchase Order for the Wing Assembly Upgrade Component for the P-3 ORION aircraft from Lockheed Martin Aeronautics totaling US\$6,307,191. This work extends to the year 2012 and the Company will manufacture components for new production service life extension kits for this Lockheed Martin Service Life Extension Program. These components will add more than 15,000 flying hours to each aircraft, representing 15 to 20 additional years of service for this critical maritime patrol and reconnaissance resource.

Systems Integration

The Company is developing its 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.

The aforementioned P3 ORION Master Purchase Order is an example of how Systems Integration will work for us. In this project, six subcontractors will carry out various tasks, with Northstar bringing all the component parts together for testing, quality control and delivery to the customer.

Results of Operations

Comparison of the three months ended March 31, 2007 with the three months ended March 31, 2006.

Revenue for the three-month period ended March 31, 2007 was \$187,532 compared to \$636,943 of revenue recorded during the same period of the prior year. Gross profits decreased from \$353,234 (55% of Sales) in the prior period to \$147,085 (78% of Sales) in the current period. The decrease was due to the fact that the Company had substantial contract work in the prior quarter and carried out little contract work in the current period.

The net loss for the three-month period ended March 31, 2007 was \$207,454 compared to a net loss of \$126,415 for the three months ended March 31, 2006. Over this past quarter, the Company has invested 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 remainder of 2007.

During the quarter the Company continued expenditures on the marketing and advertising of its NETMIND system through trade shows and a growing distribution network including

Ireland, Spain, the Scandinavian countries and the USA. NETMIND system upgrades are being well received by our fishing industry and by government research customers.

Comparison of Financial Position at March 31, 2007 with March 31, 2006

The Company's working capital deficiency decreased at March 31, 2007 to \$787,490 with current liabilities of \$1,246,934, which are in excess of current assets of \$459,444. At December 31, 2006 the Company had a working capital deficiency of \$839,777.

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Critical Accounting Policies and Estimates

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of our financial statements. Our significant accounting policies are described in the footnotes to our financial statements at December 31, 2006. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

Although these estimates are based on our knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results. Certain accounting policies involve significant judgments and assumptions by us and have a material impact on our financial condition and results. Management believes its critical accounting policies reflect its most significant estimates and assumptions used in the presentation of our financial statements. Our critical accounting policies include revenue recognition, accounting for stock based compensation and the evaluation of the recoverability of long-lived and intangible assets. We do not have off-balance sheet arrangements, financings or other relationships with unconsolidated entities or other persons, also known as special purpose entities .

Liquidity and Capital Resources

The Company has increased its shareholders' deficit as a result of its efforts to increase its business activity and customer base. Cash inflow for the first quarter ended March 31, 2007 was \$5,204 compared to a decrease in cash of \$13,934 in the comparative prior quarter March 31, 2006. In the quarter, the Company received \$150,000 (\$nil in the comparative prior quarter) from equity funding and received \$61,073 (\$81,398 in the comparative quarter) from the proceeds of long term debt leaving cash on hand at March 31, 2007 of \$29,504 compared to cash on hand of \$24,300 at December 31, 2006 and \$32,971 at March 31, 2006. Until the Company receives revenues from its new contract and/or increases its product sales revenue, it will be dependent upon equity and loan financings to compensate for the

outflow of cash anticipated from operations.

The Company is preparing a private placement offering pursuant to Regulations D and S with the expectation of raising up to \$500,000. Any funds so raised are targeted for contract financing, product development, marketing and general working capital. At this time, no commitment for funding has been made to the Company. The company's continued operations are dependant upon obtaining revenues from outside sources or raising additional funds through debt or equity financing.

Item 3. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Based on the evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934) as of the date of this Quarterly Report on Form 10-QSB, our chief executive officer and chief financial officer has concluded that our disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and are operating in an effective manner.

(b) Changes in internal controls

There were no changes in our internal controls or in other factors that could affect these controls subsequent to the date of their most recent evaluation.

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

Nil

Warrants Issued

During the three month period ended March 31, 2007 the Company issued nil share purchase warrants.

Common Stock Issued

Date

Consideration

288,000

January, 2007

services valued at \$24,770

250,000	January, 2007	\$12,500 cash
25,000	February, 2007	services valued at \$2,250
250,000	February, 2007	\$12,500 cash
187,500	March, 2007	services valued at \$17,250
1,500,000	March, 2007	\$125,000 cash

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 31.1 - Section 906 Certification of Periodic Report of the Chief Executive Officer.

Exhibit 32.1 - Section 302 Certification of Periodic Report of the Chief

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.

May 14, 2007 Northstar Electronics, Inc.

(Registrant)

By: /s/ Wilson Russell

Wilson Russell, PhD, President and Chief Financial Officer