NORTHSTAR ELECTRONICS INC
Form 10-Q
August 22, 2011

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

[ ] 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 incorporation or organization #33-0803434 IRS Employee Identification No.

SUITE # 410 - 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[X] No[ ]

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 [X]NON-ACCELERATED FILER

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). [ ]Yes [X]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 AUGUST 12, 2011: 44,149,578

Transitional Small Business Disclosure Format (check one):
Yes[] NO[X]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
UNAUDITED - PREPARED BY MANAGEMENT

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

	JUNE 30 2011 UNAUDITED	December 31 a
ASSETS		
CURRENT		
Cash and cash equivalents	$ 29,343	$ 1
Accounts receivable	92,757	
Inventory	215,054	1
Prepaid expenses	24,802	
	361,956	3
DEFERRED CONTRACT COSTS	51,158	
INTANGIBLE ASSET	11,197	

EQUIPMENT	44,405	
	$ 468,716	$ 4
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$ 2,183,951	$ 1,9
Loans payable	843,170	5
Due to Cabot Management Limited	56,509	
Due to Directors	1,103,200	1,2
Deferred revenue	30,627	
Current portion of long-term debt	1,290,225	1,3
	5,507,682	5,1
LONG-TERM DEBT	925,762	7
	6,433,444	5,8
STOCKHOLDERS' DEFICIT		
Authorized:		
100,000,000 Common shares with a par value of $0.0001 each		
20,000,000 Preferred shares with a par value of $0.0001 each		
Issued and outstanding:		
43,457,709 Common shares (36,143,942 - December 31, 2010)	4,346	
488,586 Preferred series A shares (488,586 - December 31, 2010)	409,299	4
ADDITIONAL PAID-IN CAPITAL	6,483,121	5,7
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(836,677)	(6
ACCUMULATED DEFICIT	(12,024,817)	(10,9
	$ 468,716	$ 4

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Operations
Three and Six Months Ended June 30, 2011 and 2010
Unaudited
U.S.Dollars

	Three Months		Six Months	
	2011	2010	2011	201
Sales	$136,800	$953,099	$320,775	$2,23
Cost of goods sold	92,116	686,244	182,960	1,67
Gross margin	44,684	266,855	137,815	56
Recovery of development costs	16,530	0	16,530	
Other income (expense)	(9,559)	(7,122)	2,837	
	51,655	259,733	157,182	56
EXPENSES				
Salaries	208,948	215,263	448,254	43
Management and administration fees	45,000	45,000	90,000	9
Financial consulting	0	4,500	0	
Professional fees	86,059	2,920	89,087	1
Rent	34,872	27,606	69,562	6

Research and development	0	0	0	
Investor relations	25,213	16,802	36,113	2
Office and administration	47,249	33,140	65,268	7
Travel and business development	0	18,750	0	3
Interest on debt	32,495	83,031	243,574	10
Telephone and utilities	7,840	7,625	14,658	1
Amortization	(7,095)	4,715	8,808	
Finance fees	42,500	(19,994)	144,500	1
Total expenses	523,081	439,358	1,209,824	86
Net loss for period	$(471,426)	$(179,625)	$(1,052,642)	$(3
Net loss per share	$ (0.01)	$ (0.01)	$ (0.00)	$
Weighted average number of shares outstanding	33,629,875	39,096,432	38,374,600	34,

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statement of Changes in Stockholders' Equity
Six Months Ended June 30, 2011
Unaudited
U.S. Dollars

	Shares	Amount	Additional Paid in Capital	Other Compre-hensive Income	Accumu-lated Deficit	Total Stockholder Equity (Deficit
Balance December 31, 2010	36,143,942	$3,614	$5,764,443	$(649,153)	$(10,972,175)	$(5,853,27
Net loss for six months	-	-	-	-	(1,052,642)	(1,052,64
Currency translation adjustment	-	-	-	(187,524)	-	(187,52
Issuance of common stock:						
- for loans	1,111,112	111	199,889	-	-	200,00
- for cash	4,792,859	479	339,521	-	-	340,00
- for services	1,409,796	142	179,268	-	-	179,41
Balance June 30, 2011	43,457,709	$4,346	$6,483,121	$(836,677)	$(12,024,817)	$(6,374,02

Series A shares of preferred stock -balance December 31, 2010	409,2
Series A shares of preferred stock - converted	
Series A shares of preferred stock - subscribed	
Total stockholders' equity (deficit) June 30, 2011	$(5,964,7

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2011 and 2010
Unaudited

U.S.Dollars

	2011	2010
Operating Activities		
Net income (loss)	$(1,052,642)	$(303,895)
Adjustments to reconcile net income (loss) to net cash used by operating activities:		
Amortization	8,808	9,595
Write down of deferred start up costs	6,974	113,698
Issuance of common stock for services	179,410	56,091
Changes in operating assets and liabilities	(8,877)	175,507
Net cash (used) provided by operating activities	(866,327)	50,996
Investing Activities		
Property and equipment disposal (purchase)	(5,894)	1,197
Net cash (used) provided by investing activities	(5,894)	1,197
Financing Activities		
Issuance of common shares for cash (net of costs)	340,000	375,000
Loans payable	209,179	0
Increase (repayment) of long term debt	126,273	(405,761)
Advances from (repayment to) directors	80,034	(86,727)
Net cash (used) provided by financing activities	755,486	(117,488)
Effect of foreign exchange on translation	10,767	(2,299)
Inflow (outflow) of cash	(105,968)	(67,594)
Cash, beginning of period	135,311	108,486
Cash, end of period	$ 29,343	$ 40,892
Supplemental information		
Interest paid	$ 53,574	$100,992
Shares issued for prepaid expense	$ 0	$ 97,000

Shares issued for loan repayment	$200,000	$ 6,600
Corporate income taxes paid	$ 0	$ 0

See notes to the consolidated financial statements

NORTHSTAR ELECTRONICS, INC.
Notes to Consolidated Financial Statements
Six Months Ended June 30, 2011
Unaudited
U.S. Dollars

1. NATURE OF OPERATIONS AND ABILITY TO CONTINUE AS A GOING CONCERN

These consolidated 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"). 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 takeover resulting in the consolidated financial statements including the results of operations of the acquired subsidiary prior to the merger. All intercompany balances and transactions are eliminated.

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, 2010 Form 10-K and amendments.

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 June 30, 2011 and the consolidated results of operations and the consolidated cash flows for the six months then ended. For the six months ended June 30, 2011, 100% of the Company's revenues were generated from contracts with two major customers. The Company is continually marketing its services for new and follow-on contracts.

The results of operations for the six months ended June 30, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year. The accompanying consolidated 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 six months to June 30, 2011 the Company incurred a net loss of $1,052,642 and at June 30, 2011 had a working capital deficiency (an excess of current liabilities over current assets) of $5,091,349 (December 31, 2010: $4,851,596), including $1,290,225 of long term debt due within one year (December 31, 2010: $1,318,587). 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 contract revenues. The Company continues to seek manufacturing assembly contracts to increase revenue. These initiatives are in recognition that in order for 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 not certain. 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. SHARE CAPITAL

COMMON STOCK
During the six months ended June 30, 2011 the following shares of common stock were issued:
For services: 1,409,796 shares fairly valued at $179,410 - the market value of those services
For cash: 4,792,859 shares fairly valued for cash of $340,000.
For conversion of loans: 1,111,112 fairly valued at $200,000

PREFERRED STOCK
Issued for cash:
In prior periods 488,586 series A shares of preferred stock were issued for $409,299. The preferred shares bear interest at 10% per annum paid semi annually not in advance and are convertible to shares of common stock of the Company after two years from receipt of funds at a 20% discount to the then current market price of the Company's common stock. The preferred shares may be converted after six months and before two years under similar terms but with a 15% discount to market.

3. LONG TERM DEBT

Balance owing December 31, 2010	$2,024,980
Increase	126,273
Effect of foreign exchange on translation to US	64,734
Balance due June 30, 2011	2,215,987
Less current portion	(1,290,225)
	$ 925,762

4. REVENUE

	Six months 2011	Six months 2010
Revenue consists of:		
Product sales	$ 0	$ 0
Contract sales	320,775	2,239,071

Government assistance	16,530	0
Other	2,837	0
	$340,142	$ 2,239,071

5. CONTINGENCIES

(i) The Company is contingently liable to repay $2,294,755 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 Aquacomm 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. At June 30, 2011 the Company has accrued $197,609 as repayable.

6. NEW ACCOUNTING PRONOUNCEMENTS

Management does not believe that any recently issued but not yet effective accounting pronouncements if currently adopted would have a material effect on the accompanying consolidated financial statements.

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 six month periods ended June 30, 2011 and June 30, 2010 prepared by management and the audited consolidated financial statements for the twelve months ended December 31, 2010 as presented in the Form 10K as filed.

Although the Company has experienced a net loss this quarter, it continues to expend effort to secure additional contracts for the manufacture and assembly of military/government systems, submarine command and control consoles, sonar systems, precision, machined parts and other components for aerospace and 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, a defense electronics contract manufacturer (CM) and a defense systems integrator

(DSI).

UNDERWATER SONAR PRODUCTS AND TECHNOLOGIES

A) PROJECT X

The company developed, under contract to Lockheed Martin Canada, a specialized underwater sonar system and built a prototype unit. Further contract work on this program is anticipated in 2011.

B) DEFENSE SONAR SYSTEMS

The Company was 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 design and technology is applicable to innovative military sonar products.

DEFENSE CONTRACT MANUFACTURING

The Company, with its updated facilities, completed further details and reviews for prospective new submarine console work from Lockheed Martin Manassas MS2, and was awarded a first contract.

The Company's wholly owned subsidiary, Northstar Network Ltd., continued work on the original Master Purchase Order for the Wing Assembly Upgrade Components for the P-3 ORION aircraft from Lockheed Martin Aeronautics and is presently preparing to start work on the recent $9.1M addition to the Master Purchase Order. The Company is manufacturing components for new production service life extension kits for this Lockheed Martin Service Life Extension Program.

In addition to the P3 Project, work continued with some delays for the manufacture/assembly of the new Machine Control Consoles and new Trainer Consoles for L3 Communication MAPPS Ltd. for the Canadian Navy Frigate Upgrade program. Over 60 units will be delivered under this contract. The delays were a result of the Company's lack of working capital in the quarter which is presently improving.

SYSTEMS INTEGRATION

The Company continues to enhance its approach to securing and executing large defense contracts by bringing together affiliate companies. The overall affiliate capability, which is

substantial, is presented to the prime contractors. Marketing efforts continue in this area to broaden our exposure for manufacturing opportunities.

The aforementioned P3 ORION Master Purchase Order and the L3 Communications MAPPS Ltd. contract are examples of how Systems Integration works for us. In these projects, six subcontractors carry out various tasks, with Northstar bringing all component parts together for engineering, testing, quality control and delivery to the customer.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 2011 with the three and six months ended June 30, 2010:

Gross revenues from sales, miscellaneous income and recovery of research and development for the three month period ended June 30, 2011 were $143,771 compared to $945,977 in the comparative prior three month period. Gross revenues from sales, miscellaneous income and recovery of research and development for the six month period ended June 30, 2011 were $340,142 compared to $2,239,071 in the comparative prior six month period.

Sales revenue for the three month period ended June 30, 2011 was $136,800 (86% decrease) compared to $953,099 of sales revenue recorded during the same three month period of the prior year. This comparative decrease is partially the result of delays encountered with the release of new contract sales orders for the P3 Mid-Life Upgrade program. During this quarter sales orders were received and work commenced on establishing production and delivery schedules. Results of this activity will appear in the subsequent quarter. Adding to the loss was the delay in contract increases for the L3 Frigate Consol upgrade program. Subsequent to the second quarter the increases were received. An overall contributing factor to the decline in revenues was insufficient working capital to support production on the contracts. The Company believes its working capital position will improve with expected equity investments in the current and following quarters which we expect will lead to significant increases in revenue in the third and fourth quarters, along with improved margins.

Sales revenue for the six month period ended June 30, 2011 was $320,775 (86% decrease) comparable to $2,239,071 in the prior period. Gross margins increased 18% from $562,989 (25%) in the prior six month period to $137,815 (43%) in the current six month period but declined considerably in $'s as sales decreased.

The net loss for the three month period ended June 30, 2011 was $(471,426) compared to a net loss of $(179,625) for the three months ended June 30, 2010. The increase in the loss resulted from the decline in gross revenue as expenses increased.

Salaries decreased to $394,443 for the six months ended June 30, 2011 compared to salaries of $432,186 for the comparative prior six months ended June 30, 2010 as the Company contracted its workforce due to decreased contract sales. Salaries may increase

with new projects anticipated in the aeronautics area, commensurate with corresponding increases in revenues.

Travel and business development costs were $0 for the six months and $34,102 for the comparative prior period ended June 30, 2010 as the Company attempted to contract its outlays due to the decline in revenue.

During the period purchase orders valued at approximately $2.4M were received on the Company's contract with Lockheed Martin for the P-3 aircraft refurbishment program.

The Company is actively pursuing contracts for its sonar capabilities in military and anti terrorist applications.

COMPARISON OF FINANCIAL POSITION AT JUNE 30, 2011 WITH DECEMBER 31, 2010

The Company's working capital deficiency increased at June 30, 2011 to $5,145,726 with current liabilities of $5,507,682 which are in excess of current assets of $361,956. At December 31, 2010 the Company had a working capital deficiency of $4,851,596.

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 annual financial statements at December 31, 2010. 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 outflow for the six months ended June 30, 2011 was negative $(866,327) compared to a cash inflow of $50,996 in the comparative prior six month period. During the six months ended June 30, 2011 the Company received $340,000 from equity funding, received $126,273 net proceeds from long term debt, received

$209,179 from other loan proceeds and received $80,034 net from directors of the Company leaving cash on hand at June 30, 2011 of $29,343 compared to cash on hand of $135,311 at December 31, 2010 and $9,758 at March 31, 2011.

Until the Company receives revenues from new contracts 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 preferred share offering pursuant to Regulations D and S with the expectation of raising up to $1,250,000. Any funds so raised are targeted for contract financing, product development, facilities, marketing and general working capital. At this time, no commitment for funding has been made to the Company.

The Company's continued operations are dependent 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-Q, 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. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

a) Options Granted	Date	Exercise Price	Expiry Date

Nil

b) Warrants Issued

During the six month period ended June 30, 2011 the Company issued nil share purchase warrants.

c)

Common Stock Issued	Date	Consideration
150,000	February, 2011	cash of $15,000
328,398	February, 2011	services valued at$39,400
650,000	March, 2011	services valued at$78,000
1,111,112	March, 2011	repayment of $200,000 loan from Directo
335,000	April, 2011	finance fees valuedat $42,500
4,642,859	June, 2011	cash of $325,000
96,398	June, 2011	services valued at $19,510

d) Preferred Stock Subscribed

Nil

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

No change since previous filing.

Exhibit 31.1-CEO/CFO Certification

Exhibit 32.1-CEO/CFO Certification

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 14, 2011 Northstar Electronics, Inc.
(Registrant)

By: /s/ Wilson Russell

Wilson Russell, PhD, President and Chief Financial Officer