NORSTAR GROUP INC
Form 10QSB
May 16, 2003

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, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF
THE EXCHANGE ACT FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER

NORSTAR GROUP, INC.

(EXACT NAME OF SMALL BUSINESS ISSUER AS SPECIFIED IN ITS CHARTER)

UTAH	59-1643698
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

4101 Ravenswood Road, Suite 128, Ft. Lauderdale, Florida 33312
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE) (ZIP CODE)

ISSUER'S TELEPHONE NUMBER, INCLUDING AREA CODE: (954) 772-0240

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15 (d) of the Securities 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 [ ]

At March 31, 2003 there were issued and outstanding 25,793,825 shares of Common Stock.

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

NorStar Group, Inc. and Subsidiaries
Table of Contents

Part I- Financial Information:

Item 1. Financial Statements

Index to Unaudited Condensed Financial Statements

NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheet
March 31, 2003 (Unaudited)

Assets

Current assets - cash
Equipment, net of accumulated depreciation of $3,845
Capitalized web site development costs, at estimated net realizable value
Mineral rights, at estimated net realizable value

Total

Liabilities and Stockholders' Deficiency

Current liabilities:
Noninterest bearing demand notes payable to stockholders
Accounts payable and accrued expenses

Total

Commitments and contingencies

Stockholders' deficiency:
Class A convertible preferred stock, par value $10 per share; 1,000,000 shares authorized; none issued
Class B preferred stock, par value $10 per share; 1,000,000 shares authorized; none issued
Common stock, par value $.01 per share; 150,000,000 shares authorized; 25,793,825 shares issued and outstanding
Additional paid-in capital
Accumulated deficit
Unearned compensation

Total stockholders' deficiency

Total

See Notes to Condensed Consolidated Financial Statements.

NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
Three Months Ended March 31, 2003 and 2002
(Unaudited)

	2003	2002
Revenues	$ -	$ -
Operating expenses:		
Selling	25,250	
General and administrative	8,989	21,240
Research and development		4,000
Totals	34,239	25,240
Net loss	$(34,239)	$(25,240)
Basic net loss per common share	$(-)	$(-)
Basic weighted average common shares outstanding	25,793,825	20,743,825

See Notes to Condensed Consolidated Financial Statements.

NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Statement of Changes in Stockholders' Deficiency
Three Months Ended March 31, 2003
(Unaudited)

	Common Stock		Additional	
	Number of Shares	Amount	Paid-in Capital	Accumulated Deficit
Balance, January 1, 2003	25,793,825	$257,938	$6,273,090	$(6,745,355)
Amortization of unearned compensation				
Net loss				(34,239)
Balance, March 31, 2003	25,793,825	$257,938	$6,273,090	$(6,779,594)

See Notes to Condensed Consolidated Financial Statements.

NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2003 and 2002
(Unaudited)

Operating activities:	
Net loss	$
Adjustments to reconcile net loss to net cash used in operating activities:	
Amortization of unearned compensation	
Depreciation	
Changes in operating liabilities - accounts payable and accrued expenses	
Net cash used in operating activities	
Financing activities - proceeds from issuance of notes payable to stockholders	
Net increase in cash	
Cash, beginning of period	
Cash, end of period	$

See Notes to Condensed Consolidated Financial Statements.

NorStar Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Business and basis of presentation:

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring accruals, necessary to present fairly the financial position of NorStar Group, Inc. and its subsidiaries (the "Company") as of March 31, 2003, and the Company's results of operations and cash flows for the three months ended March 31, 2003 and 2002 and changes in stockholders' deficiency for the three months ended March 31, 2003. Pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"), certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed in or omitted from these consolidated financial statements unless significant changes have taken place since the end of the most recent fiscal year. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2002 and for the years ended December 31, 2002 and 2001 and the notes thereto (the "Audited Financial Statements") and the other information included in the Company's Annual Report on Form 10-KSB (the "Form 10-KSB") for the year ended December 31, 2002.

The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the full year ending December 31, 2003.

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, the Company has not generated any significant revenues on a sustained basis from its current operations. As shown in the accompanying condensed consolidated financial statements, the Company incurred net losses of approximately $34,000 and $25,000 for the three months ended March 31, 2003 and 2002, respectively, although a substantial portion of the loss in 2003 was attributable to the amortization of noncash charges for the fair value of shares and stock options previously issued for services, compensation and other expenses. As of March 31, 2003, the Company had a cash balance of only $5,000, a working capital deficiency of $282,000 and an accumulated deficit of $6,780,000. Management believes that the Company will continue to incur net losses through at least March 31, 2004 and that it will need additional equity and/or debt financing of at least $2,000,000 to enable it to fully develop its web services as initially planned and sustain its operations until it can achieve profitability and generate cash flows from its operating activities on a recurring basis. These matters raise substantial doubt about the Company's ability to continue as a going concern.

Note 1 - Business and basis of presentation (concluded):

Management is attempting to obtain additional financing for the Company through the issuance of equity securities, loans from financial institutions and/or agreements with strategic partners.

However, management is also evaluating an alternative whereby it would suspend the development of the Company's internet technology, at least temporarily, and search for another company that has had ongoing commercial operations that would merge with the Company and continue its business operations. Management cannot assure that the Company will be able to sell equity securities, obtain loans from financial institutions and/or form strategic alliances that will generate financing for the further development of the Company's internet technology or enter into a merger agreement with an operating company on acceptable terms. If the Company is not able to obtain adequate financing or consummate a merger, it may have to curtail or terminate some or all of its operations.

The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue its operations as a going concern.

Note 2 - Earnings (loss) per common share:

As further explained in Note 2 of the notes to the Audited Financial Statements, the Company presents basic earnings (loss) and, if appropriate, diluted earnings per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share". Diluted per share amounts have not been presented in the accompanying unaudited condensed consolidated statements of operations because the Company did not have any potentially dilutive common shares outstanding during the three months ended March 31, 2003 and 2002.

Note 3 - Income taxes:

As of March 31, 2003, the Company had net operating loss carryforwards of approximately $6,780,000 available to reduce future Federal taxable income which, if not used, will expire at various dates through 2023. The Company had no other material temporary differences as of that date. Due to the uncertainties related to, among other things, the changes in the ownership of the Company, which could subject those loss carryforwards to substantial annual limitations, and the extent and timing of its future taxable income, the Company offset the deferred tax assets attributable to the potential benefits of approximately $2,712,000 from the utilization of those net operating loss carryforwards by an equivalent valuation allowance as of March 31, 2003.

Note 3 - Income taxes (concluded):

The Company had also offset the potential benefits from net operating loss carryforwards by equivalent valuation allowances during 2002. As a result of the increases in the valuation allowance of $14,000 and $10,000 during the three months ended March 31, 2003 and 2002, respectively, the Company did not recognize any credits for income taxes in the accompanying condensed consolidated statements of operations to offset its pre-tax losses in any of those periods.

Note 4 - Stock option plan:

On April 17, 2000, the Board of Directors approved a Stock Option Plan (the "Plan"), subject to ratification by the Company's stockholders, whereby up to 2,000,000 shares of the Company's common stock may be granted to key personnel in the form of incentive stock options and nonstatutory stock options, as defined under the Internal Revenue Code. Key personnel eligible for these awards may include all present and future employees of the Company and individuals who are consultants to the Company as well as nonemployee directors of the Company. Under the Plan, the exercise price of options must be at least 100% of the fair market value of the common stock on the date of grant (the exercise price of an incentive stock option for an optionee that holds more than 10% of the combined voting power of all classes of stock of the Company must be at least 110% of the fair market value on the date of grant). The maximum term of any stock option granted may not exceed ten years (or five years for an optionee that holds 10% or more of the Company's stock) from the date of grant.

As of May 13, 2003, no stock options had been awarded under the Plan.

* * *

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion regarding our business and operations contains "forward-looking statements" within the meaning of Private Securities Litigation Reform Act of 1995. Such statements consists 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," "estimate" or "continue" or the negative thereof of other variations thereon or comparable terminology. The reader is cautioned that all 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 such forward-looking statements. We do not have a policy of updating or revising forward-looking statements and thus it should not be assumed that silence by management, over time, means that actual events are bearing out as estimated in such forward-looking statements

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

Our condensed consolidated financial statements have been prepared in accordance with accounting principals generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates. We base our estimates on historical experience and on other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results could differ from these estimates under different assumptions or conditions. No events have occurred during the current period, which in our judgment would impact, either positively or negatively, our critical accounting policies and estimates that were detailed in our Annual Report previously filed with The Securities and Exchange Commission on Form 10-KSB.

RESULTS OF OPERATIONS:

Three months ended March 31, 2003 as compared to the Three months ended March 31, 2002.

The Company did not have any revenues during either period. Management estimates that the Company will not begin to generate revenues from sales of memberships to subscribers for the near future.

During the three months ended March 31, 2003, our operating expenses increased by approximately $9,000 to approximately $34,000 from approximately $25,000 for three months ended March 31, 2002. The primary cause of the increase was non-cash charges of approximately $25,000 relating to amortization of unearned compensation which resulted from the issuance of shares of common stock to consultants relating to the agreements described below.

On July 25, 2002, we entered into various agreements with certain consultants. Under these agreements, the consultants will be required to, among things, assist us in finding businesses located primarily in Europe that would advertise in and/or link to the our online community in addition to performing website development services. These agreements will expire on July 25, 2003. As consideration for their services, the consultants received a total of 5,050,000 shares of common stock with an aggregate fair market value of $101,000. We recorded the aggregate fair market value as unearned compensation, which is being amortized to expense over the period from July 25, 2002 to July 25, 2003.

LIQUIDITY AND CAPITAL RESOURCES:

Our condensed consolidated financial statements have been prepared assuming that we will continue as a going concern. However, we have not generated any significant revenues on a sustained basis from our current operations. As shown in the condensed consolidated financial statements, we have continued to incur net losses of approximately $34,000 and $25,000 for the three months ended March 31, 2003 and 2002, respectively, although a substantial portion of the loss in 2003 was attributable to the amortization of non-cash charges for the fair value of shares and stock options previously issued for services, compensation and other expenses. As of March 31, 2003, we had a cash balance of only $5,000, a working capital deficiency of approximately $282,000 and an accumulated deficit of $6,780,000. We believe that we will continue to incur net losses through at least March 31, 2004 and that we will need additional equity and/or debt financing of at least $2,000,000 to enable it to fully develop our web services as initially planned and sustain our operations until we can achieve profitability and generate cash flows from our operating activities on a recurring basis. These matters raise substantial doubt about our ability to continue as a going concern.

We are is attempting to obtain additional financing for us through the issuance of equity securities, loans from financial institutions and/or agreements with strategic partners. However, we are is also evaluating an alternative where we would suspend the operations of our Internet technology, at least temporarily, and look for another company that has had ongoing commercial operations, that would merge with us and continue its business operation. We cannot assure that we will be able to sell equity securities, obtain loans from financial institutions and/or form strategic alliances that will generate financing for the further development of our

Internet technology or enter into a merger agreement with an operating company on acceptable terms. If we are not able to obtain adequate financing, we may have to curtail or terminate some or all of its operations.

During the three months ended March 31, 2003 and 2002, we financed our operations from our existing cash reserves and/or the proceeds generated from the sale of notes to our stockholders of approximately $9,000 and $28,000, respectively.

We do not believe that our business is subject to seasonal trends or inflation. On an ongoing basis we will attempt to minimize any effect of inflation on our operating results by controlling operating costs and whenever possible, seeking to insure that subscription rates and usage fees reflect increases in costs due to inflation

Item 3. Control and Procedures

(a) Evaluation of disclosure controls and procedures. We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. Within 90 days prior to the filing of this Quarterly Report on Form 10-QSB, we carried out an evaluation, under the supervision and the participation of our management including our Chief Executive Officer of the design and operation of these disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to the Company required to be in our periodic SEC filings.

(b) Changes in internal controls. There were no significant changes in internal controls or other factors that could significantly affect our internal controls subsequent to the date of our evaluation.

PART II - OTHER INFORMATION

Item 1. Legal proceedings

None.

Item 2. Changes in Securities

None.

Item 3. Default in Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

On May 4, 2003, our Chairman, Harry DiFrancesco, passed away. Our Board of Directors has appointed Jay Sanet , its Chief Executive Officer, as its new Chairman.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description
99.1	Certification of the Chief Executive Officer of Norstar Group, Inc. Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer of Norstar Group, Inc. Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) There were no Current Reports on Form 8-K filed by the registrant during the quarter ended March 31, 2003

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.

NORSTAR GROUP, INC.

(Registrant)

By: /s/ Jay Sanet

Jay Sanet
CEO

Date: May 15, 2003