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NORSTAR GROUP INC
Form 10QSB
May 14, 2001

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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, 2001

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

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

59-1643698

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

6365 NW 6TH WAY, SUITE 160, FORT LAUDERDALE, FLORIDA 33309
(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 NO

AT MARCH 31, 2001 THERE WERE ISSUED AND OUTSTANDING 18,743,825 SHARES OF COMMON
STOCK.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT (CHECK ONE): YES NO

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PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

NorStar Group, Inc. and Subsidiaries

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NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheet
March 31, 2001 (Unaudited)

ASSETS

Current assets - cash	\$
Equipment, net of accumulated depreciation of \$1,049	
Capitalized web site development costs	
Mineral rights, at estimated net realizable value	--
 Total	 \$ ==

LIABILITIES AND STOCKHOLDERS' EQUITY

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

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Total

Commitments and contingencies

Stockholders' equity:

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; 18,743,825 shares issued and outstanding
 Additional paid-in capital
 Accumulated deficit
 Unearned compensation

Total stockholders' equity

Total

See Notes to Condensed Consolidated Financial Statements.

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NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations
 Three Months Ended March 31, 2001 and 2000
 (Unaudited)

	2001

Revenues	\$ --

Operating expenses:	
Selling	125,667
General and administrative	30,145
Research and development	17,000

Totals	172,812

Net loss	\$ (172,812)
	=====
Basic net loss per common share	\$ (.01)
	=====
Basic weighted average common shares outstanding	18,743,825
	=====

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See Notes to Condensed Consolidated Financial Statements.

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NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders' Equity
 Three Months Ended March 31, 2001
 (Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	U Com
	Number of Shares	Amount			
Balance, January 1, 2001	18,743,825	\$187,438	\$6,162,590	\$(6,014,913)	
Amortization of unearned compensation					
Net loss				(172,812)	
Balance, March 31, 2001	18,743,825	\$187,438	\$6,162,590	\$(6,187,725)	\$

See Notes to Condensed Consolidated Financial Statements.

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NorStar Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows
 Three Months Ended March 31, 2001 and 2000
 (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

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Net cash used in operating activities

Investing activities - web site development costs capitalized

Financing activities - proceeds from issuance of notes payable to stockholders

Net decrease in cash

Cash, beginning of period

Cash, end of period

See Notes to Condensed Consolidated Financial Statements.

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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, 2001, and the Company's results of operations and cash flows for the three months ended March 31, 2001 and 2000 and changes in stockholders' equity for the three months ended March 31, 2001. 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, 2000 and for the years ended December 31, 2000 and 1999 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, 2000.

The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results to be expected for the full year ending December 31, 2001.

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

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revenues on a sustained basis from its current operations. Management estimates that the Company will not begin to generate revenues from sales of memberships to subscribers until the third quarter of the year ending December 31, 2001. As shown in the accompanying condensed consolidated financial statements, the Company incurred net losses of approximately \$173,000 and \$25,000 for the three months ended March 31, 2001 and 2000, respectively, although a substantial portion of the loss in 2001 was attributable to noncash charges for the fair value of shares and stock options issued for services, compensation and other expenses. As of March 31, 2001, the Company had a cash balance of only \$12,000, a working capital deficiency of approximately \$95,000 and an accumulated deficit of \$6,188,100. Management believes that the Company will continue to incur net losses through at least March 31, 2002 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.

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NorStar Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

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 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 on acceptable terms. If the Company is not able to obtain adequate financing, 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 (i) the

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Company had a net loss for the three months ended March 31, 2001 and, accordingly, the assumed effects of the exercise of options granted in April 2000 (see Note 5 herein) would have been anti-dilutive and (ii) the Company did not have any potentially dilutive common shares outstanding during the three months ended March 31, 2000.

Note 3 - Income taxes:

As of March 31, 2001, the Company had net operating loss carryforwards of approximately \$6,188,000 available to reduce future Federal taxable income which, if not used, will expire at various dates through 2021. 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 \$2,475,000 from the utilization of those net operating loss carryforwards by an equivalent valuation allowance as of March 31, 2001.

The Company had also offset the potential benefits from net operating loss carryforwards by equivalent valuation allowances during 2000. Accordingly, although the Company had pre-tax losses in the three months ended March 31, 2001 and 2000, it did not recognize a credit for Federal income taxes in either period as a result of increases in the valuation allowance of \$69,000 and \$10,000 in the three months ended March 31, 2001 and 2000, respectively.

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NorStar Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements
(Unaudited)

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

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grant.

As of May 8, 2001, no stock options had been awarded under the Plan.

Note 5 - Consulting agreements

On April 17, 2000, the Company entered into agreements with three consultants that expired on April 17, 2001. Under these agreements, the consultants were, among other things, assisting the Company in finding businesses located primarily in England, other European countries and the Northeastern section of the United States that would advertise in and/or link to the Company's online community. As of May 10, 2001, management of the Company and the consultants were negotiating, but had not consummated, extensions of these agreements,

As consideration for their services, the three consultants received options to purchase a total of 1,300,000 shares of the Company's common stock that were exercisable at \$.40 per share at any time during the terms of the consulting agreements. The options expired on April 17, 2001. As further explained in Note 2 of the notes to the Audited Financial Statements, the aggregate fair value of the options granted to the consultants as of the date of grant was \$377,000. The Company recorded the aggregate fair value as unearned compensation which it amortized to expense over the period from April 17, 2000 to April 17, 2001. The unamortized balance of unearned compensation of \$15,708 is reflected as a reduction of stockholders' equity in the accompanying condensed consolidated balance sheet as of March 31, 2001.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS ON PLAN OF OPERATION

The following discussion regarding NorStar and its business and operations contains "forward-looking statements" within the meaning of Private Securities Litigation Reform Act 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. NorStar does not have a policy of updating or revising forward-looking statements and thus it should not be assumed that silence by management of NorStar over time means that actual events are bearing out as estimated in such forward-looking statements.

OVERVIEW

NorStar Group, Inc. was originally incorporated in the State of Utah in March 1961 as Florist Accounting Services, Inc., a finance company that was primarily engaged in factoring accounts receivables for florists in Utah. The Company was unable to develop a profitable operation and became inactive until April 1992. During the period from April 1992 through March 31, 2001 the Company acquired and/or began to develop and dispose of, several businesses and certain other investments. In 1998, the company began the development of its Internet business which involves the creation of a portal to a cyber-city, an on-line community of "One Stop Shopping" for products, entertainment, education and

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business services. The on-line community is being developed through VeeAreCity and the Burbs. The portal is designed to provide subscriber/member with access to several web browsers, a directory to thousands of stores, three dimensional virtual reality ("VR") chat rooms, forums and game rooms, a VR dating service, VR business conference room, specialty advertising rooms with VR activities and global e-mails. The Company also holds mineral rights attributable to 17 claims that were acquired for gold mines located in the Gold Mountain mining district of Esmeralda County Nevada. However, management does not expect mining operations to become one of the Company's core businesses.

RESULTS OF OPERATIONS:

Three months ended March 31, 2001 as compared to three months ended March 31, 2000.

During the three months ended March 31, 2001, the Company's operating expenses increased by approximately \$148,000 to approximately \$173,000 from approximately \$25,000 for the three months ended March 31, 2000. The primary cause of the increase was non-cash charges of approximately \$126,000 relating to amortization of unearned compensation which resulted from the issuance of stock options to consultants relating to the agreements described below.

On April 17, 2000, the Company entered into agreements with three consultants. Under these agreements, the consultants will, among other things, assist the Company in finding businesses located primarily in England, other European countries and the Northeastern section of the United States of America that will advertise in and/or link to the Company's on-line community. The three consultants received options to purchase a total of 1,300,000 shares of the Company's common stock that will be exercisable at \$.40 per share at any time during the term of the consulting agreements as consideration for their services.

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The aggregate fair value of the options granted to the consultants of \$377,000 as of the date of grant, as determined based on the Black-Scholes option-pricing model, was recorded as unearned compensation, which will be amortized to expense over the periods in which the related services are rendered, as required by generally accepted accounting principles in the United States of America.

As a result of the above, the Company incurred a loss of approximately \$173,000 for the three months ended March 31, 2001 as compared to approximately \$25,000 for the comparable period ended March 31, 2000.

(a) Liquidity and Capital Resources

NorStar's 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 condensed consolidated financial statements, the Company has continued to incur net losses, although a substantial portion of the losses was attributable to noncash charges for the fair value of shares and stock options issued for services, compensation and other expenses. As of March 31, 2001, the Company had a cash balance of only \$12,000, a working capital deficiency of approximately \$95,000 and an accumulated deficit of \$6,188,000. Management believes that the Company will continue to incur net losses through at least March 31, 2002 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

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recurring basis. These matters raise substantial doubt about the Company's ability to continue as a going concern.

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 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 on acceptable terms. If the Company is not able to obtain adequate financing, it may have to curtail or terminate some or all of its operations.

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.

The Company believes the following trends, events and uncertainties could have a material impact on their short-term and/or long-term liquidity. The market for Internet discount services and product programs is relatively new and is evolving rapidly. NorStar's future growth is dependent upon its ability to create, develop and distribute programs that are accepted by its clients as an integral part of their business model for communicating with their targeted audiences. Demand and market acceptance of discount products and service programs is dependent upon a number of factors, including the growth in consumer access to and acceptance of these programs, the willingness of service and product providers to offer their services and products to customers of NorStar at a discount, and NorStar's ability to develop and maintain distribution channels to sell memberships to consumers. The failure of providers or consumers to participate in NorStar's programs or substantial increases in the adequacy or availability of other programs could have a material and adverse impact on NorStar's business, operating results and financial condition. In addition, NorStar does not have long-term contracts and needs to establish relationships

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with new vendors. As a result, providers of discounted services or products to NorStar's members may unilaterally reduce the scope of, or terminate their relationships with NorStar. The termination of NorStar's business relationship or a material reduction in the availability of services or products from any of NorStar's significant providers or networks thereof or NorStar's failure to develop significant new provider relationships would materially and adversely affect its business, operating results and financial condition.

NorStar believes that within the market niche it seeks to develop, the following known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on their net sales or revenues or income from their continuing operations will include the following: (i) The market for discounted products and services is characterized by rapid changes in participating companies, consumers and service provider requirements and preferences, new service and product introductions and evolving industry standards that could render NorStar's existing service practices and methodologies obsolete; (ii) NorStar's success will depend, in large part, on its ability to improve its existing services, develop new services and solutions that address the increasingly sophisticated and varied needs of NorStar's clients, and respond to technological advances, emerging industry standards and practices, and competitive service offerings; and (iii) NorStar may not be successful in responding quickly, cost-effectively and sufficiently to these developments. If NorStar is unable, for technical, financial or other reasons, to adapt in a timely manner in response to changing market conditions or these requirements, its business, results of operations and financial condition would

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be materially adversely affected.

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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

None.

Item 6. Exhibits and Reports on Form 8-K

(a) There were no Current Reports on Form 8-K filed by the registrant during the quarter ended March 31, 2001.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Company duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NORSTAR GROUP, INC.

By: /s/ Harry DiFrancesco

Harry DiFrancesco
President

Date: March 31, 2001

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

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Signature -----	Position -----	Date ----
By: /s/ Harry DiFrancesco ----- Harry DiFrancesco	President and Chairman of the Board	Date: March 31, 2001
By: /s/ Andrew S. Peck ----- Andrew S. Peck	Vice President of Finance Secretary and Director	Date: March 31, 2001
By: /s/ Maynard Neil Abogov ----- Maynard Neil Abogov	Vice President of Sales and Management and Director	Date: March 31, 2001
By: /s/ Jay Sanet ----- Jay Sanet	Vice President of Corporate Development and Director	Date: March 31, 2001