OMNI USA INC
Form 10QSB
November 15, 2004

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 September 30, 2004

Commission File Number: 0-17493

OMNI U.S.A., INC.

(Exact name of registrant as specified in its charter)

Nevada	88-0237223
(State of Incorporation)	(IRS Employer Identification No.)

7502 Mesa Road, Houston, Texas 77028

(Address of principal executive offices)

(713) 635-6331

(Issuer's Telephone Number)
Issuer's internet address: www.ousa.com

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 for 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 November 12, 2004, there were 1,171,812 shares of common stock $.004995 par value outstanding.

OMNI U.S.A., INC. AND SUBSIDIARIES

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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OMNI U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2 (unaudited)
ASSETS	
CURRENT ASSETS	
Cash	$ 423,541
Accounts receivable, trade, net	3,082,266
Accounts receivable, related parties	19,114
Inventories, net	4,246,105
Prepaid expenses	374,434
TOTAL CURRENT ASSETS	8,145,460
PROPERTY AND EQUIPMENT, net of Accumulated depreciation and amortization	1,507,585
OTHER ASSETS	
Primarily intangible assets, net	335,090
TOTAL ASSETS	$ 9,988,135
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 2,626,916
Line of credit	2,022,843
Accrued expenses	367,082
Current portion of long-term debt	684,394
TOTAL CURRENT LIABILITIES	5,701,235
LONG-TERM DEBT	947,461
COMMITMENTS AND CONTINGENCIES	
STOCKHOLDERS' EQUITY	
Common stock (1,227,079 shares issued and 1,171,812 outstanding)	6,129

Additional paid-in capital	5,372,815
Treasury Stock (55,267 shares)	(100,071)
Retained earnings (deficit)	(2,050,561)
Foreign currency translation adjustment	111,127
TOTAL STOCKHOLDERS' EQUITY	3,339,439
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 9,988,135

The accompanying notes are an integral part of the condensed consolidated financial statements.

OMNI U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	For the three months ended September 30, 2004	For the three months ended September 30, 2003
NET SALES	$ 4,371,801	$ 3,543,233
COST OF SALES	3,199,978	2,792,474
Gross Profit	1,171,823	750,759
OPERATING EXPENSES		
Selling, general and administrative	1,033,288	838,820
Operating income/(loss)	138,535	(88,061)
OTHER INCOME (EXPENSE)		
Interest expense	(85,392)	(95,405)
Other, net	5,711	3,511
OTHER EXPENSE	(79,681)	(91,894)
NET INCOME/(LOSS) BEFORE INCOME TAXES	58,854	(179,955)
INCOME TAXES	-	-
NET INCOME/(LOSS)	58,854	(179,955)
COMPREHENSIVE INCOME - Foreign Currency Translation Adjustment	6,310	6,872

NET AND COMPREHENSIVE INCOME/(LOSS)	$ 65,164	($ 173,083)
BASIC INCOME/(LOSS) PER SHARE	$ 0.06	($ 0.15)

The accompanying notes are an integral part of the condensed consolidated financial statements.

OMNI U.S.A., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the three months ended September 30, 2004	For ... Sep...
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(loss)	$ 58,854	
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Depreciation and amortization	93,302	
Changes in operating assets and liabilities:		
Accounts receivable and notes receivable	(1,034,248)	
Inventories	(232,884)	
Prepaid expenses	(174,393)	
Accounts payable and accrued expenses	307,883	
Other assets	(8,967)	
Total adjustments	(1,049,307)	
Net cash (used) provided by operating activities	(990,453)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(74,426)	
Net cash used by investing activities	(74,426)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on line of credit	6,978,499	
Payments on line of credit	(5,302,696)	
Payments on long-term debt	(726,715)	
Net cash provided (used) by financing activities	949,088	
TRANSLATION EFFECT OF FOREIGN CURRENCIES	6,310	
NET DECREASE IN CASH	(109,481)	

CASH AT BEGINNING OF PERIOD	533,022
CASH AT END OF PERIOD	$ 423,541

The accompanying notes are an integral part of the condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. As permitted under those rules, certain footnotes or other financial information that are normally required by generally accepted accounting principles in the United States (GAAP) have been condensed or omitted. The Company believes that the disclosures made in this report are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's latest annual report on Form 10-KSB.

The Company's management is responsible for the unaudited financial statements included in this document. In the opinion of the Company, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial position of Omni U.S.A., Inc. and subsidiaries as of September 30, 2004, and the results of their operations and cash flows for the three months ended September 30, 2004, and 2003, have been made in accordance with GAAP.

There are significant operations in Mainland China; however, the functional exchange rate for those operations is the U.S. dollar. The foreign currency translation adjustment primarily arises from the translation of amounts from operations in Hong Kong and Japan in which the functional currency is that of the foreign location.

2. EARNINGS PER SHARE:

Basic and diluted income/(loss) per share is based on the weighted average number of shares of common stock outstanding. For the periods ended September 30, 2004 and 2003, the Company's weighted average shares are calculated as follows:

	September 30, 2004	Septem
Weighted average common shares outstanding	1,171,812	

When the Company is in a net loss position, all common stock equivalents are considered anti-dilutive and are therefore not included in the calculation of earnings per share. During the three month period ended September 30, 2004, the Company had positive net income; however, the exercise price of all common stock equivalents exceeded its average fair value. Accordingly, all common stock equivalents were considered anti-dilutive during the period and are therefore not included in the calculation of earnings per share.

3. MAJOR CUSTOMERS AND VENDORS:

During the fiscal quarters ended September 30, 2004 and September 30, 2003, the Company and its subsidiaries had consolidated sales of $596,796 and $321,646 to a domestic customer for a total of 13.7% and 9.1% of consolidated sales. During the three months ended September 30, 2004 and September 30, 2003, the Company and its subsidiaries had consolidated purchases of $1,601,147 and $1,063,496 from two vendors for a total of 59% and 51% of consolidated purchases.

4. REVOLVING LINE OF CREDIT AND LONG-TERM DEBT:

The Company previously had a revolving line of credit with a financing company, which provided for maximum borrowings of $4,000,000. The line of credit bore interest at prime plus 1-2% dependent upon certain financial ratios, required maintenance of certain levels of income and tangible net worth and was secured by essentially all of the U.S. assets of the Company. The line of credit matured in June 2003 and was not in compliance with its minimum financial reporting covenants at June 30, 2003. The Company continued to borrow under the line of credit under verbal extensions and waivers from the financing company until the financing company halted borrowings in May 2004. The line of credit was repaid and replaced with a factoring facility and inventory term loan with another financing company. Borrowings under the line of credit at June 30, 2004 and 2003 amounted to $0 and $2,515,461, respectively.

On August 4, 2004, the Company entered into a revolving line of credit agreement with a new financing company with maximum borrowings up to $5,000,000, dependent upon qualifying trade accounts receivable and inventory balances. The line of credit matures August 3, 2007, bears interest a prime plus 1.75% and incurs an unused line of credit fee of .25%. The credit line is subject to certain financial ratio and reporting covenants. The line of credit is secured by all of the assets of the Company and personal guarantees by two officers of the Company of $1,000,000 each. Proceeds received under the line of credit agreement were used to repay any amounts owed under the inventory note payable. Outstanding borrowings amounted to $1,969,246 at September 30, 2004.

The Company also maintains a line of credit with a foreign financial institution, which provides for maximum borrowings of $1,000,000 based on the creditworthiness of the Company's customers serviced by the Company's foreign subsidiary. Outstanding borrowings amounted to $53,597 and $347,040 at September 30, 2004 and June 30, 2004, respectively. The foreign line of credit matures November 30, 2004 and bears interest at 5.625%. Management is currently in negotiations to renegotiate the terms and due dates of this foreign line of credit under what it believes will be comparable terms.

5. INCOME TAXES

The difference between the expected income tax benefit/(expense) at September 30, 2004 of $(20,010) and $61,185 at September 30, 2003 which would be determined by applying the statutory U.S. income tax rate of 34% to income/(loss) before income tax expense, is primarily due to the decrease/increase in the deferred tax valuation allowance.

6. OPERATING LEASES

The Company leases equipment and office, warehouse and manufacturing space in Houston, TX; Butler, KY; Shanghai, China; and Hong Kong, and Brazil. The Houston facility is a combination office/warehouse facility of approximately 40,000 square feet, which the Company uses as its headquarters and as an Omni Gear assembly center, inventory warehouse, warranty repair, quality control, testing and inspection, and distribution center. The Houston facility is leased from a real estate investment company located in Houston, Texas, under a long-term lease expiring July 2005. The Butler facility is a 35,000 square feet manufacturing facility. The Shanghai facility leases buildings in a manufacturing complex containing approximately 130,000 square feet.

7. LITIGATION AND CONTINGENCIES

The Company, from time to time, is a party to various legal proceedings that constitute ordinary routine litigation incidental to the Company's business. In the opinion of management, all such matters are either adequately covered by insurance or are not expected to have a material adverse effect on the Company.

8. SEGMENT INFORMATION:

The Company and its subsidiaries are engaged in the business of designing, developing and distributing power transmissions and trailer and implement components used for agricultural, construction and industrial equipment. Selected financial information by business segment with respect to these activities for the first quarter ended September 30th is as follows

	2004	2003
Net Sales		
Power Transmission Components	$3,443,366	$2,740,136
Trailer and Implement Components	928,435	803,097
Total Omni U.S.A., Inc.	$4,371,801	$3,543,233
Income (Loss) from Operations		
Power Transmission Components	$ 141,067	($ 15,161)
Trailer and Implement Components	(2,532)	(72,900)
Total Omni U.S.A., Inc.	$ 138,535	($ 88,061)
Net Income (Loss)		
Power Transmission Components	$ 78,077	($ 68,718)
Trailer and Implement Components	(19,223)	(111,237)
Total Omni U.S.A., Inc.	$ 58,854	($ 179,955)
Identifiable Assets		
Power Transmission Components	$7,469,505	$6,846,488
Trailer and Implement Components	2,518,630	2,562,280
Total Omni U.S.A., Inc.	$9,988,135	$9,408,768
Revenues		
Domestic Customers	$3,595,217	$3,093,997
Foreign Customers	776,584	449,236

Total Revenues	$4,371,801	$3,543,233
Property and Equipment (Net)		
Domestic	$ 489,913	$ 504,974
Foreign	1,017,672	1,160,882
Total Property and Equipment	$1,507,585	$1,665,856
Depreciation and Amortization		
Power Transmission Components	$ 68,682	$ 63,358
Trailer and Implement Components	24,620	29,413
Total Omni U.S.A., Inc.	$ 93,302	$ 92,771
Interest Expense		
Power Transmission Components	$ 71,128	$ 66,110
Trailer and Implement Components	14,264	29,295
Total Omni U.S.A., Inc.	$ 85,392	$ 95,405

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report has been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. This report should be read in conjunction with the Company's latest Form 10-KSB, a copy of which may be obtained by visiting the Company's home page at www.ousa.com, or by writing to the Investor Relations Department, Omni U.S.A., Inc., 7502 Mesa Road, Houston, Texas 77028.

Liquidity and Capital Resources

The Company's primary capital requirements are for routine working capital needs that are generally met through a combination of internally generated funds, revolving line of credit facilities, and credit terms from suppliers. The Company's line of credit facilities had an outstanding balance of $2,022,843 at September 30, 2004. The Company had working capital of $2,444,225 as of September 30, 2004 and working capital of $2,436,127 as of June 30, 2004, an increase of $8,098. The increase in working capital from June 30, 2004 was due to increases in sales, net operating income and borrowings from the line of credit, offset by payments on notes payable.

The increase of $1,039,874 in accounts receivable, trade, net and $1,675,803 in the line of credit was primarily due to the factoring facility being converted to the new revolving line of credit with a new financing company.

The Company had a cash balance of $423,541 as of September 30, 2004; reflecting a negative cash flow of $109,481 compared to the June 30, 2004 cash balance of $533,022. The Company's cash used by operating activities for the 3 months ended September 30, 2004 of ($990,453) consisted of the net income for the period and increases in accounts payable, offset by combined increases in inventory, accounts receivable, and prepaid expenses.

The Company's cash used in investing activities for the three months ended September 30, 2004 of $74,426 consisted of net capital expenditures for the period.

Net cash provided by financing activities for the three months ended September 30, 2004 of $949,088 consisted primarily of borrowings on the line of credit offset by payments on notes payable.

The Company's current ratio was 1.43 as of September 30, 2004, which is an 8% decrease when compared to the June 30, 2004 current ratio of 1.56.

The Company believes that between its access to the line of credit facilities and its anticipated ability to generate funds internally, it has adequate capital resources to meet its working capital requirements for the next fiscal year, given its current working capital requirements, known obligations, and assuming current levels of operations. If however, operations do not remain at current levels and the Company is unable to access or renew its line of credit facilities or service its long term debt facilities, the Company will be required to reduce its operations accordingly which may have a negative impact on the Company to meet the needs of it customers, suppliers and credit providers. In addition, the Company believes that it has the ability to raise additional financing in the form of debt to fund additional capital expenditures, if required.

Results for the Quarter ended September 30, 2004 compared with the Quarter ended September 30, 2003

The Company had net sales of $4,371,801 for the three months ended September 30, 2004. This represents an increase of 23% compared to the three months ended September 30, 2003 net sales of $3,543,233. Management believes that the increase in sales is due to the annual sales cycle of the industry during this time of year and some June 2004 deliveries that were delayed until the three months ended September 30, 2004. The following table indicates the Company's net sales comparison and percentage of change for the three months ended September 30, 2004 and 2003:

NET SALES	QUARTER ENDED 9/30/04	% OF TOTAL	QUARTER ENDED 9/30/03	% OF TOTAL	DOLLAR CHANGE
Power Transmission Components	$3,443,366	79%	$2,740,136	77%	$703,230
Trailer and Implement Components	928,435	21%	803,097	23%	$125,338
Consolidated	$4,371,801	100%	$3,543,233	100%	$828,568

Gross profit for the three months ended September 30, 2004 increased $421,064 to $1,171,823, compared to gross profit for the three months ended September 30, 2003 of $750,759. The increase in sales and gross profit was primarily attributable to an increase in sales in both business segments. Gross profit as a percentage of net sales for the three months ended September 30, 2004 increased to 27% as compared to 21% for the three months ended September 30, 2003. This increase was primarily due to the product mix of sales with increased sales of higher margin power transmission components for the period.

Selling, general and administrative expenses increased $194,468 to $1,033,288 in the three months September 30, 2004 compared to $838,820 in the three months ended September 30, 2003. The increase was attributed to the increased operational support required by the increase in sales activity for the period.

Income from operations for the Company increased $226,596 to a gain of $138,535 for the three months ended September 30, 2004, compared to an operating loss of $88,061 for the three months ended September 30, 2003. Income from operations as a percentage of sales was 3% in the three months ended September 30, 2003 compared to a loss of 2% in the three months ended September 30, 2003. This increase is principally the result of increase in sales and margins.

Interest expense decreased $10,013 to $85,392 for the three months ended September 30, 2004 from $95,405 for the three months ended September 30, 2003. The decrease resulted from improved terms from the new line of credit.

Other income (expense) was income of $5,711 for the three months ended September 30, 2004 compared to $3,511 for the three months ended September 30, 2003.

The Company's net income increased $238,809, resulting in a net income of $58,854, or $0.06 per share, for the three months ended September 30, 2004 compared to a net loss of ($179,955) or ($0.15) per share, for the three months ended September 30, 2003.

Cautionary Statement

The following is a "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

With the exception of historical facts, the statements contained in Item 2 of this form 10-QSB are forward-looking statements. Forward-looking statements discuss future expectations, plans, strategies, activities or events. They often include words such as believe, expect, anticipate, intend or plan, or words with similar meaning or with future or conditional verbs such as will, would, should, or may. The Company does not plan to update these forward-looking statements to reflect events or changes that occur after they are made.

Actual results may differ materially from those contemplated by the forward-looking statements. The Company cannot guarantee that any forward looking statement will be realized, although the Company and its management believe that it has been prudent in its plans and assumptions. Investors are further directed to the Company's documents, such as its Annual Report on Form 10-KSB, Forms 10-QSB's and Forms 8-KSB filed with the Securities and Exchange Commission. Achievement of future results and these forward-looking statements involve risks and uncertainties, including but not limited to, the following:

1) acts or threats of war or terrorism, and the effects of such acts or threats on the Company, its employees, its debtors, customers and vendors as well as the local and international economies in which the Company sells its products,

2) changes in the availability of debt and equity capital resulting in increased costs, shareholder dilution, or reduced liquidity and lack of working capital,

3) cyclical downturns affecting the markets for our products over which we have no control,

4) our lack of ability to generate profitable operations and positive cash flows from those operations,

5) the effects of our failure to timely pay our outstanding debts,

6) substantial increases in interest rates,

7) availability or material increases in the costs of select raw materials,

The Company undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the applicable cautionary statements.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There have been no material changes from the disclosure in the Company's Form 10-KSB for the fiscal year ended June 30, 2004.

Item 6(a). Exhibits

Exhibit 31.1

Exhibit 32.1

Item 6(b). Reports on filed Form 8-K.

None

Item 7. Controls and Procedures.

Evaluation of disclosure controls and procedures. Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer concluded that 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 (the "Exchange Act")) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported to the Company's management within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in internal controls. Subsequent to the date of their evaluation, there were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's disclosure controls and procedures, and there were no corrective actions required with regard to significant deficiencies and material weaknesses based on such evaluation.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 15, 2004 OMNI U.S.A., INC.

By: /s/ Jeffrey K. Daniel

Jeffrey K. Daniel
President and Chief Executive Officer

EXHIBIT INDEX

Exhibits

Exhibit 31.1

Exhibit 32.1