OMNI USA INC
Form 10QSB
November 19, 2003

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, 2003

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)

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 14, 2003, 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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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

ASSETS

	September 30, 2003 (unaudited)	June 30,
CURRENT ASSETS		
Cash	$ 399,997	$ 70
Accounts receivable, trade, net	2,441,628	3,89
Accounts receivable, related parties	24,946	2
Inventories, net	4,231,556	4,01
Notes receivable	63,810	6
Prepaid expenses	246,533	22
TOTAL CURRENT ASSETS	7,408,470	8,93
PROPERTY AND EQUIPMENT, net of Accumulated depreciation and amortization	1,665,856	1,70
OTHER ASSETS		
Primarily intangible assets, net	334,442	33
TOTAL ASSETS	$ 9,408,768	$ 10,96

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 2,609,760	$ 2,80
Line of credit	1,646,901	2,74
Accrued expenses	417,259	45
Current portion of long-term debt	822,891	81
TOTAL CURRENT LIABILITIES	5,496,811	6,82
LONG-TERM DEBT	1,101,639	1,16
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	5,37
Treasury Stock (28,667 shares)	(100,071)	(10
Retained earnings (deficit)	(2,571,672)	(2,39
Foreign currency translation adjustment	103,117	9
TOTAL STOCKHOLDERS' EQUITY	2,810,318	2,98
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 9,408,768	$ 10,96

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, 2003	For the three months ended September 30, 2002
NET SALES	$ 3,543,233	$ 4,462,093
COST OF SALES	2,792,474	3,242,660
Gross Profit	750,759	1,219,433
OPERATING EXPENSES		
Selling, general and administrative	838,820	970,720
Operating income/(loss)	(88,061)	248,713
OTHER INCOME (EXPENSE)		
Interest expense	(95,405)	(101,499)
Other, net	3,511	30,266
OTHER INCOME (EXPENSE)	(91,894)	(71,233)
NET INCOME/(LOSS) BEFORE INCOME TAXES	$ (179,955)	$ 177,480
INCOME TAXES	--	(40,393)
NET INCOME/(LOSS)	$ (179,955)	$ 137,087
COMPREHENSIVE INCOME - Foreign Currency Translation Adjustment	$ 6,872	$ 366
NET AND COMPREHENSIVE INCOME/(LOSS)	$ (173,083)	$ 137,453
BASIC INCOME/(LOSS) PER SHARE	$ (0.15)	$ 0.11

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

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

	For the three months ended September 30, 2003	For the thre months ende September 30,
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income/(loss)	$ (179,955)	$ 137,08
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	92,771	69,33
Deferred taxes	--	40,39
Changes in operating assets and liabilities:		

Accounts receivable/Notes receivable	1,454,320	184,21
Inventories	(217,448)	(55,12
Prepaid expenses	(22,484)	(54,75
Accounts payable and accrued expenses	(237,001)	(35,00
Other	(6,875)	1,07
Total adjustments	1,063,283	150,13
Net cash provided by operating activities	883,328	287,21
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(49,277)	(28,18
Net cash used by investing activities	(49,277)	(28,18
CASH FLOWS FROM FINANCING ACTIVITIES:		
Purchases of treasury stock	--	(9,51
Borrowings on line of credit	2,921,241	2,972,79
Payments on line of credit	(4,014,370)	(3,486,25
Payments on long-term debt	(57,027)	(47,32
Net cash used by financing activities	(1,150,156)	(570,30
TRANSLATION EFFECT OF FOREIGN CURRENCIES	6,872	36
NET DECREASE IN CASH	(309,233)	(310,90
CASH AT BEGINNING OF PERIOD	709,230	821,54
CASH AT END OF PERIOD	$ 399,997	$ 510,64

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, 2003, and the results of their operations and cash flows for the three months ended September 30, 2003, and 2002, 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, 2003 and 2002, the Company's weighted average shares are calculated as follows:

	September 30, 2003	September 30, 2002
Weighted average common shares outstanding	1,171,812	1,207,912

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, 2002, 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, 2003 and September 30, 2002, the Company and its subsidiaries had consolidated sales of $321,646 and $780,941 to a domestic customer for a total of 9.1% and 17% of consolidated sales. During the three months ended September 30, 2003 and September 30, 2002, the Company and its subsidiaries had consolidated purchases of $1,063,496 and $1,600,995 from two vendors for a total of 51% and 49% of consolidated purchases.

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

The Company has a revolving line of credit with a financing company which provides for maximum borrowings of $4,000,000 as determined by a formula based on trade accounts receivable and inventory. The line of credit matures June 2003, bears interest at prime plus 1%-2%, depending upon certain financial ratios, requires the maintenance of certain levels of income and tangible net worth and is secured by essentially all of the U.S. assets of the Company. Management is currently in negotiations to renegotiate the terms and due dates of this line of credit under what it believes will be comparable terms.

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 $56,121 and $224,569 at September 30, 2003 and June 30, 2003, respectively. The foreign line of credit matures November 30, 2003 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, 2003 of $61,185 and ($60,343) at September 30, 2002 which would be determined by applying the statutory U.S. income tax rate of 34% to income/(loss) before income tax expense, are due to differences in the expected year-end effective income tax rate and increases in the valuation allowance because the determination that the realization of tax assets in future periods will be more likely than not can not be made at this time.

6. OPERATING LEASES

The Company leases equipment and office, warehouse and manufacturing space in Houston, TX; Butler, KY, Madill, OK; Shanghai, China; and Hong Kong. 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. SUBSEQUENT EVENTS

In October 2003, the Company committed to a plan to consolidate the operations of its Trailer and Implement Components business segment into one manufacturing facility. The Madill, Oklahoma facility was closed and its employees terminated or relocated to Butler, Kentucky. The inventory, machinery and equipment are being moved to Butler, Kentucky to fill excess capacity and space. While the Company is still committed to the Madill lease, it believes that the consolidation of manufacturing operations will reduce costs with little or no adverse impact to future sales levels. The Company anticipates approximately $25,000 in moving and severance expenses.

9. 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

	2003	2002
Net Sales		
Power Transmission Components	$ 2,740,136	$ 3,490,338
Trailer and Implement Components	803,097	971,755
Total Omni U.S.A., Inc.	$ 3,543,233	$ 4,462,093

Income (Loss) from Operations		
Power Transmission Components	$ (15,161)	$ 225,594
Trailer and Implement Components	(72,900)	23,119
Total Omni U.S.A., Inc.	$ (88,061)	$ 248,713
Net Income (Loss)		
Power Transmission Components	$ (68,718)	$ 132,562
Trailer and Implement Components	(111,237)	4,525
Total Omni U.S.A., Inc.	$ (179,955)	$ 137,087
Identifiable Assets		
Power Transmission Components	$ 6,846,488	$ 6,927,795
Trailer and Implement Components	2,562,280	3,323,598
Total Omni U.S.A., Inc.	$ 9,408,768	$10,251,393
Revenues		
Domestic	$ 3,093,997	$ 3,903,199
Foreign	449,236	558,894
Total Revenues	$ 3,543,233	$ 4,462,093
Property and Equipment (Net)		
Domestic Customers	$ 504,974	$ 591,007
Foreign Customers	1,160,882	1,180,151
Total Property and Equipment	$ 1,665,856	$ 1,771,158
Depreciation and Amortization		
Power Transmission Components	$ 63,358	$ 59,438
Trailer and Implement Components	29,413	9,895
Total Omni U.S.A., Inc.	$ 92,771	$ 69,333
Interest Expense		
Power Transmission Components	$ 66,110	$ 76,196
Trailer and Implement Components	29,295	25,303
Total Omni U.S.A., Inc.	$ 95,405	$ 101,499

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 $1,646,901 at September 30, 2003. The Company had working capital of $1,911,659 as of September 30, 2003 and working capital of $2,108,437 as of June 30, 2003, a decrease of $196,778. The decrease in working capital from June 30, 2003 was due to decreases in sales, net operating losses and payments on the line of credit.

The Company had a cash balance of $399,997 as of September 30, 2003; reflecting a negative cash flow of $309,233 compared to the June 30, 2003 cash balance of $709,230. The Company's cash provided by operating activities for the 3 months ended September 30, 2003 of $883,328 consisted of the net loss for the period and increases in accounts payable and inventory offset by combined decreases in accounts receivable.

The Company's cash used in investing activities for the three months ended September 30, 2003 of $49,277 consisted of net capital expenditures for the period.

Net cash used by financing activities for the three months ended September 30, 2003 of $1,150,156 consisted primarily of payments on the line of credit and long-term debt.

The Company's current ratio was 1.35 as of September 30, 2003, which is a 3% increase when compared to the June 30, 2003 current ratio of 1.31.

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, 2003 compared with the Quarter ended September 30, 2002

The Company had net sales of $3,543,233 for the three months ended September 30, 2003. This represents a decrease of 21% compared to the three months ended September 30, 2002 net sales of $4,462,093. Management believes that the decrease in sales is due to the annual sales cycle of the industry during this time of year and some June 2002 deliveries that were delayed until the three months ended September 30, 2002. The following table indicates the Company's net sales comparison and percentage of change for the three months ended September 30, 2003 and 2002:

NET SALES	QUARTER ENDED 9/30/03	% OF TOTAL	QUARTER ENDED 9/30/02	% OF TOTAL	DOLLAR CHANGE

Power Transmission Components	$2,740,136	77%	$3,490,338	78%	$(750,202)
Trailer and Implement Components	803,097	23%	971,755	22%	$(168,658)
Consolidated	$3,543,233	100%	$4,462,093	100%	$(918,860)

Gross profit for the three months ended September 30, 2003 decreased $468,674 to $750,759, compared to gross profit for the three months ended September 30, 2002 of $1,219,433. The decrease in sales and gross profit was primarily attributable to a decrease in sales in both business segments. Gross profit as a percentage of net sales for the three months ended September 30, 2003 decreased to 21% as compared to 27% for the three months ended September 30, 2002. This decrease was primarily due to the product mix of sales with decreased sales of higher margin power transmission components for the period.

Selling, general and administrative expenses decreased $131,900 to $838,820 in the three months September 30, 2003 compared to $970,720 in the three months ended September 30, 2002. This included the reduction of certain allowances and reserves in response to collection of certain older accounts previously included in allowance for doubtful accounts and sales of slower moving inventory previously included in the reserve for obsolete inventory.

Income from operations for the Company decreased $336,774 to a loss of $88,061 for the three months ended September 30, 2003, compared to an operating income of $248,713 for the three months ended September 30, 2002. Income from operations as a percentage of sales decreased to (2%) in the three months ended September 30, 2003 compared to a gain of 6% in the three months ended September 30, 2002. This decrease is principally the result of decrease in sales and margins to comparable periods.

Interest expense decreased $6,094 to $95,405 for the three months ended September 30, 2003 from $101,499 for the three months ended September 30, 2002. The decrease resulted from decreased borrowings associated with the Company's lines of credit and long-term debt.

Other income (expense) was income of $3,511 for the three months ended September 30, 2003 compared to $30,266 for the three months ended September 30, 2002. This change primarily relates to decreased commission income and VAT refund on increased sales.

The Company's net income decreased $317,042 resulting in a net loss of $179,955, or a loss of ($0.15) per share, for the three months ended September 30, 2003 compared to a net income of $137,087 or $0.11 per share, for the three months ended September 30, 2002.

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, 2003.

Item 6(a). Exhibits

Exhibit 31.1

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 18, 2003 OMNI U.S.A., INC.

By: /s/ Jeffrey K. Daniel

Jeffrey K. Daniel
President and Chief
Executive Officer