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OMNI USA INC
Form 10-Q
May 15, 2002

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, 2002

Commission File Number: 0-17493

OMNI U.S.A., INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of Incorporation)

88-0237223

(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 No

At May 14, 2002, there were 1,207,912 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets
March 31, 2002 and June 30, 2001

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Condensed Consolidated Statements of Operations

Three Months and Nine Months Ended March 31, 2002 and March 31, 2001

Condensed Consolidated Statements of Cash Flows

Nine Months Ended March 31, 2002 and March 31, 2001

Notes to Condensed Consolidated Financial Statements

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

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

| | ASSETS | March 31, 2002 (unaudited) |
|---|--------|-------------------------------|
| | | ----- |
| CURRENT ASSETS | | |
| Cash | | \$ 272,254 |
| Accounts receivable, trade, net | | 2,976,452 |
| Accounts receivable, related parties | | 38,335 |
| Inventories | | 4,808,641 |
| Notes receivable | | 109,807 |
| Prepaid expenses | | 149,512 |
| Deferred tax assets | | 40,393 |
| | | ----- |
| TOTAL CURRENT ASSETS | | 8,395,394 |
| | | ----- |
| PROPERTY AND EQUIPMENT, net of | | |
| Accumulated depreciation and amortization | | 1,871,254 |
| | | ----- |
| OTHER ASSETS | | |
| Primarily intangible assets, net | | 194,136 |
| | | ----- |
| TOTAL ASSETS | | \$ 10,460,784 |
| | | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | | \$ 2,327,283 |
| Lines of credit | | 2,978,020 |
| Accrued expenses | | 233,172 |
| Current portion of long-term debt | | 1,074,106 |
| | | ----- |
| TOTAL CURRENT LIABILITIES | | 6,612,581 |
| | | ----- |
| LONG-TERM DEBT | | 996,781 |
| | | ----- |

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COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

| | |
|--|-------------|
| Common stock (1,227,079 shares issued and 1,207,912 outstanding) | 6,129 |
| Additional paid-in capital | 5,372,815 |
| Treasury Stock (19,167 shares) | (57,141) |
| Retained earnings (deficit) | (2,568,046) |
| Foreign currency translation adjustment | 97,665 |

TOTAL STOCKHOLDERS' EQUITY 2,851,422

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY \$ 10,460,784

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 AND THE NINE MONTHS ENDED MARCH 31, 2002 AND 2001

| | THREE MONTHS ENDED MARCH 31, 2002 | THREE MONTHS ENDED MARCH 31, 2001 |
|--|--|--|
| NET SALES | \$ 4,740,057 | \$ 5,808,113 |
| COST OF SALES | 3,924,586 | 4,504,980 |
| GROSS PROFIT | 815,471 | 1,303,133 |
| OPERATING EXPENSES | | |
| Selling, general and administrative | 733,076 | 1,000,886 |
| OPERATING INCOME (LOSS) | 82,395 | 302,247 |
| OTHER INCOME (EXPENSE) | | |
| Interest expense | (122,043) | (110,418) |
| Other, net | 68,242 | (33,626) |
| TOTAL OTHER EXPENSE | (53,801) | (144,044) |
| NET INCOME (LOSS) | \$ 28,594 | \$ 158,203 |
| COMPREHENSIVE INCOME - Foreign Currency Translation Adjustment | - | - |
| NET AND COMPREHENSIVE | | |

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| | | |
|---|-----------|------------|
| INCOME (LOSS) | \$ 28,594 | \$ 158,203 |
| BASIC EARNINGS (LOSS) PER SHARE | \$ 0.02 | \$ 0.13 |
| FULLY DILUTED EARNINGS (LOSS) PER SHARE | \$ 0.02 | \$ 0.13 |

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

OMNI U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED MARCH 31, 2002 AND 2001

| | NINE MONTHS ENDED MARCH 31, 2002 |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net Income (loss) | \$ (272,896) |
| Adjustments to reconcile net income (loss) to net cash provided / (used) by operating activities: | |
| Depreciation and amortization | 290,000 |
| (Gain)/Loss on disposal of assets | (5,506) |
| Changes in operating assets and liabilities: | |
| Accounts receivable/ Notes receivable | 397,317 |
| Inventories | 177,269 |
| Prepaid expenses | (41,288) |
| Accounts payable and accrued expenses | (1,267,883) |
| Total adjustments | (450,091) |
| Net cash provided/(used) by operating activities | (722,987) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Acquisition of other assets | - |
| Capital expenditures | (30,543) |
| Net cash used by investing activities | (30,543) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Borrowings on long-term debt | 250,730 |
| Borrowings on line of credit | 9,593,920 |
| Payments on line of credit | (9,387,062) |
| Payments on long-term debt | (91,622) |

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| | | |
|--|------------|--|
| Net cash provided/(used) by financing activities | 365,966 | |
| Effects of foreign currency translation | 717 | |
| NET DECREASE IN CASH | (386,847) | |
| CASH AT BEGINNING OF PERIOD | 659,101 | |
| CASH AT END OF PERIOD | \$ 272,254 | |
| Supplemental disclosure of non-cash investing activities | | |
| Capital expenditures financed by debt | \$ - | |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND 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 March 31, 2002, and the results of their operations for the three month and nine month periods and cash flows for the nine month periods ended March 31, 2002, and 2001, 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. NEW ACCOUNTING PRONOUNCEMENTS

Accounting for Asset Retirement Obligations: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations, effective for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting requirements for retirement obligations for tangible, long-lived assets. The adoption of SFAS No. 143 is not expected to

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have a material impact on the Company's financial statements.

Accounting for Impairment or Disposal of Long-Lived Assets: In August 2001, the FASB issued SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, that replaces SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001 and, generally, are to be applied prospectively. SFAS No. 144 requires that long-lived assets to be disposed of by sale, including those of discontinued operations, be measured at the lower of the carrying amount or fair value less costs to sell, whether reported in continuing or discontinued operations. Discontinued operations will no longer be measured at net realizable value or include amounts from operating losses that have not yet occurred. SFAS No. 144 also broadens the definition of the criteria for reporting discontinued operations to include all operations within an entity that can be distinguished from the rest of the entity that will be eliminated from the ongoing operations of the entity as a result of the disposal. The adoption of SFAS No. 144 is not expected to have a material impact on the Company's financial statements.

3. EARNINGS PER SHARE:

Basic and diluted loss per share is based on the weighted average number of shares of common stock outstanding. For the three month and nine month periods ended March 31, 2002 and March 31, 2001, the Company's weighted average shares are calculated as follows:

| | Quarter Ended March 31, 2002 | Quarter Ended March 31, 2001 | Nine Months Ended March 31, 2002 |
|--|---------------------------------|---------------------------------|--|
| Weighted average common shares outstanding | 1,207,912 | 1,207,912 | 1,207,912 |
| Effect of dilution of securities: conversion of stock options | - | - | - |
| Denominator for dilutive earnings per share | 1,207,912 | 1,207,912 | 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 periods ended March 31, 2002 and 2001, 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.

4. REVERSE SPLIT:

At a special meeting on June 14, 2001, the Company's Board of Directors approved a reduction in the number of authorized shares of common stock of the Company and a corresponding three for one reverse stock split of its common stock. In addition, all holders of options or warrants to purchase future shares of the Company's common stock were also reduced on an equal basis of three to one. The effect of the reverse split was to reduce the Company's common shares from 3,680,592 shares to 1,227,079 shares issued and 3,623,094

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shares to 1,207,912 outstanding. The par value of the common stock is unchanged. Accordingly, the Company has presented all equity and earnings per share information as if the reverse stock split had occurred effective July 1, 2000.

5. MAJOR CUSTOMERS AND VENDORS:

During the nine months ended March 31, 2002 and March 31, 2001, the Company and its subsidiaries had consolidated sales of \$1,529,631 and \$3,393,989 to a domestic customer for a total of 12% and 20% of consolidated sales. During the quarters ended March 31, 2002 and March 31, 2001, the Company and its subsidiaries had consolidated sales of \$1,062,379 and \$1,137,260 to a domestic customer for a total of 22% and 20% of consolidated sales. During the nine months ended March 31, 2002 and March 31, 2001, the Company and its subsidiaries had consolidated purchases of \$3,526,213 and \$6,527,856 from one vendor for a total of 35% and 48% of consolidated purchases. During the quarters ended March 31, 2002 and March 31, 2001, the Company and its subsidiaries had consolidated purchases of \$1,603,013 and \$2,052,478 from one vendor for a total of 41% and 46% of consolidated purchases.

6. REVOLVING LINES OF CREDIT AND LONG-TERM DEBT:

The Company has a revolving line of credit with a financial institution 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 2002, 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.

During the quarter ended March 31, 2002, the Company obtained an additional 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. The line of credit matures September 30, 2002 and bears interest at 6.625%. Borrowings on this line of credit were \$71,000 and \$0 at March 31, 2002 and 2001, respectively.

During the quarter ended March 31, 2002, the Company obtained a short-term loan of 2,500,000 Rmb with a foreign third party through its foreign subsidiary Shanghai Omni Gear (SOG). Borrowings under the short term loan were 2,100,000 Rmb, or \$253,730, at March 31, 2002 to finance production within SOG's Shanghai manufacturing facility. The loan is due in one payment January 27, 2003, bears interest at .54% per month and is secured by certain machinery and equipment of SOG.

The Company amended the terms of the notes payable to the former owners of Butler to extend the repayment terms. Under the amended terms, the Company paid \$30,000 in April, 2002 with an additional \$20,000 due for principle and accrued interest at June 30, 2002. After which, payments will be made based upon 40% of Butler's net income per month within 30 days of internal monthly financial statement issuance. Additionally, any proceeds received from the sale of Butler assets may be paid against the note payable balance.

The Company has amended its debt terms with Paccar, Inc. to provide for monthly payments of principle and interest of \$18,500 for a period of six months commencing April 5, 2002. After which time, Paccar and the Company will review the Company's cash flow with the anticipation that the monthly payments will be increased to \$26,700. The new terms increase the interest rate on the note to 12% until the monthly payments reach \$26,700 per month at which time the interest rate will be reduced to 10%. Under the amended terms, the Company shall also pay an additional \$20,000 per month beginning April 5, 2002 through August

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5, 2002 to fully repay the outstanding inventory portion of the note. Paccar, Inc. continues to be a customer of the Company.

Haas Automation payments totaling \$283,132 remain in default and past due at March 31, 2002. The Company is currently repaying the balances due under 5 year repayment terms; however, there has been no amendment to the original note payable agreement.

7. OPERATING LEASES

The Company leases equipment and office, warehouse and manufacturing space in Houston, TX; Madill, OK; Shanghai, China; and Osaka, Japan. The Company has entered into a verbal agreement to extend the Houston lease which expires June 30, 2002 at \$9,000 per month. The amended lease terms expire six months after written notice from either party.

8. LITIGATION AND CONTINGENCIES

The Company is involved in certain claims and litigation arising in it's normal course of business. Management believes that such claims and litigation will not have an adverse affect on future results or the financial condition of the Company.

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.

SEGMENT INFORMATION

| THREE MONTHS ENDED MARCH 31, 2002 | NET SALES | INCOME FROM OPERATIONS | INTEREST EXPENSE | IDENTIFIABLE ASSETS | CAPITAL EXPENDITURES | D A |
|--------------------------------------|-------------|---------------------------|---------------------|------------------------|-------------------------|--------|
| Power Transmission Components | \$3,826,249 | \$ 200,091 | \$88,609 | \$6,968,865 | \$ 9,317 | |
| Trailer and Implement Components | 913,808 | (117,696) | 33,434 | 3,491,919 | 2,364 | |
| Corporate and Eliminations | | | | | | |
| Total Omni, U.S.A., Inc. | \$4,740,057 | \$ 82,395 | \$122,043 | \$10,460,784 | \$ 11,681 | |

| THREE MONTHS ENDED MARCH 31, 2002 | NET SALES | MARCH 31, 2002 | PROPE EQUIPM |
|--------------------------------------|-------------|----------------|-----------------|
| Domestic customers | \$4,619,266 | Domestic | |
| Foreign customers | 120,791 | Foreign | |

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 Total Omni, U.S.A., Inc. \$4,740,057
 =====

 Total Omni, U.S.A., Inc.
 =====

| THREE MONTHS ENDED MARCH 31, 2001 | NET SALES | INCOME FROM OPERATIONS | INTEREST EXPENSE | IDENTIFIABLE ASSETS | CAPITAL EXPENDITURES | D A |
|--------------------------------------|-------------|---------------------------|---------------------|------------------------|-------------------------|--------|
| Power Transmission Components | \$4,698,008 | \$ 422,912 | \$93,185 | \$9,851,861 | \$ 28,639 | |
| Trailer and Implement Components | 1,110,105 | 9,176 | 5,659 | 1,934,092 | 6,068 | |
| Corporate and Eliminations | | (129,841) | 11,574 | | | |
| Total Omni, U.S.A., Inc. | \$5,808,113 | \$ 302,247 | \$110,418 | \$11,785,953 | \$ 34,707 | |

| THREE MONTHS ENDED MARCH 31, 2001 | NET SALES | PROPE EQUIPM |
|--------------------------------------|-------------|--------------------------|
| Domestic customers | \$5,462,843 | Domestic |
| Foreign customers | 345,270 | Foreign |
| Total Omni, U.S.A., Inc. | \$5,808,113 | Total Omni, U.S.A., Inc. |

SEGMENT INFORMATION
(CONTINUED)

| NINE MONTHS ENDED MARCH 31, 2002 | NET SALES | INCOME FROM OPERATIONS | INTEREST EXPENSE | IDENTIFIABLE ASSETS | CAPITAL EXPENDITURES | D A |
|-------------------------------------|--------------|---------------------------|---------------------|------------------------|-------------------------|--------|
| Power Transmission Components | \$10,043,553 | \$ 161,018 | \$241,657 | \$6,968,865 | \$ 28,179 | |
| Trailer and Implement Components | 2,704,906 | (76,514) | 62,892 | 3,491,919 | 2,364 | |
| Corporate and Eliminations | | (144,896) | | | | |
| Total Omni, U.S.A., Inc. | \$12,748,459 | \$ (60,392) | \$304,549 | \$10,460,784 | \$ 30,543 | |

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| NINE MONTHS ENDED MARCH 31, 2002 | NET SALES | MARCH 31, 2002 | PROPERTY EQUIPMENT |
|-------------------------------------|--------------|--------------------------|-----------------------|
| Domestic customers | \$11,548,381 | Domestic | |
| Foreign customers | 1,200,078 | Foreign | |
| Total Omni, U.S.A., Inc. | \$12,748,459 | Total Omni, U.S.A., Inc. | |

| NINE MONTHS ENDED MARCH 31, 2001 | NET SALES | INCOME FROM OPERATIONS | INTEREST EXPENSE | IDENTIFIABLE ASSETS | CAPITAL EXPENDITURES | DISPOSABLE ASSETS |
|-------------------------------------|--------------|---------------------------|---------------------|------------------------|-------------------------|----------------------|
| Power Transmission Components | \$13,820,275 | \$ 756,644 | \$309,500 | \$9,851,861 | \$ 345,222 | |
| Trailer and Implement Components | 3,183,648 | (7,169) | 26,354 | 1,934,092 | 55,906 | |
| Corporate and Eliminations | | (361,924) | 32,607 | | | |
| Total Omni, U.S.A., Inc. | \$17,003,923 | \$ 387,551 | \$368,461 | \$11,785,953 | \$ 401,128 | |

| NINE MONTHS ENDED MARCH 31, 2001 | NET SALES | MARCH 31, 2001 | PROPERTY EQUIPMENT |
|-------------------------------------|--------------|--------------------------|-----------------------|
| Domestic customers | \$15,725,113 | Domestic | |
| Foreign customers | 1,278,810 | Foreign | |
| Total Omni, U.S.A., Inc. | \$17,003,923 | Total Omni, U.S.A., Inc. | |

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

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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

General:

The Company has continued to experience a decline in the market demand for the Company's products since the fourth quarter of the year ended June 30, 2001 as compared to previous years. As a result, the Company has experienced negative cash flows that have reduced cash balances, decreased working capital and resulted in increased borrowings and debt balances that have become due but remain unpaid as of and for the three months and nine months ended March 31, 2002. The Company has taken steps to reduce its cost of operations to address this decline in demand to include cost minimization efforts and reductions in workforce in an attempt to match the Company's level of activities with market demand.

Capital Resources:

The Company had working capital of \$1,782,813 as of March 31, 2002 and working capital of \$1,862,151 as of June 30, 2001, a decrease of \$79,338 from June 30, 2001. The decrease in working capital from June 30, 2001 was due primarily to lower sales, collection of accounts receivable offset by payments of accounts payable as well as increasing amounts of debt that remain past due and classified as current. The Company's primary capital requirements are for working capital to manufacture, sell and distribute its products. Working capital requirements are generally met through a combination of internally generated funds, revolving lines of credit and credit terms from suppliers. The Company's credit facilities had a combined outstanding balance of \$2,978,020 and current portions of long-term debt totaled \$1,074,106 at March 31, 2002.

Accounts receivable balance of \$3,014,787 as of March 31, 2002 decreased \$298,453 compared to June 30, 2001 accounts receivable balance of \$3,313,240. Inventory balance as of March 31, 2002 was \$4,808,641; a decrease of \$177,269 compared to June 30, 2001. Accounts receivable and inventory decreased during the period in response to lower sales levels in both business segments.

Cash Flow Measurements of Liquidity:

The Company had a cash balance of \$272,254 as of March 31, 2002; reflecting a negative cash flow of \$386,847 compared to the June 30, 2001 cash balance of \$659,101. The Company's cash used by operating activities for the 9 months ended March 31, 2002 of \$722,987 consisted of the net loss for the period of \$272,896, combined with a decrease in accounts receivable, accounts payable and inventories.

The Company's cash used in investing activities for the nine months ended March 31, 2002 of \$30,543 consisted of capital expenditures for the period primarily in support of the power transmission component segment.

Net cash provided by financing activities for the nine months ended March 31, 2002 of \$365,966 was due primarily to net borrowings under the Company's lines of credit and long-term debt.

Balances due on lines of credit and current portions of long-term debt:

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As of March 31, 2002, the Company has significant amounts of debt past due. The Company has renegotiated debts with the former owners of Butler and Paccar and is currently paying on balances due to Haas Automation as more fully discussed in Note 6 of the footnotes to the financial statements. The Company has also borrowed an additional \$324,730 during the period under a new foreign line of credit and foreign short term loan.

Outlook:

The Company believes that future demand for its products as well as the general economy should improve and, between the Company's access to the line of credit facilities and its ability to generate funds internally, it has adequate capital resources to meet its working capital requirements for the foreseeable future, given its current working capital requirements, known obligations, and assuming current levels of operations. In addition, the Company believes that it has the ability to raise additional financing in the form of debt or equity to fund additional capital expenditures and operations, if required, which may or may not be favorable to the Company. In response to general declines in demand and a recent economic downturn, management has initiated measures to minimize costs and scale down activities to match decreases in sales until such demand returns, as well as emphasize sales and marketing efforts to acquire additional business from new and existing customers. Management believes that it is and will continue to be successful in this endeavor.

RESULTS FOR THE QUARTER ENDED MARCH 31, 2002 COMPARED WITH THE QUARTER ENDED MARCH 31, 2001

The Company had net sales of \$4,740,057 for the three months ended March 31, 2002. This represents a decrease of 18% compared to the three months ended March 31, 2001 net sales of \$5,808,113. Sales have decreased due to an overall economic slowdown. The following table indicates the Company's net sales comparison and percentage of change for the three months ended March 31, 2002 and 2001:

| | QUARTER ENDED 3/31/02 | % OF TOTAL | QUARTER ENDED 3/31/01 | % OF TOTAL | DOLLAR CHANGE |
|----------------------------------|-----------------------------|---------------|-----------------------------|---------------|------------------|
| Power Transmission Components | \$ 3,826,249 | 81% | \$ 4,698,008 | 81% | \$(871,759) |
| Trailer and Implement Components | 913,808 | 19% | 1,110,105 | 19% | (196,297) |
| Consolidated | \$ 4,740,057 | 100% | \$ 5,808,113 | 100% | \$(1,068,056) |

Gross profit for the three months ended March 31, 2002 decreased \$487,662 to \$815,471, compared to gross profit for the three months ended March 31, 2001 of \$1,303,133. Gross profit as a percentage of net sales for the three

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months ended March 31, 2002 decreased to 17% as compared to 22% for the three months ended March 31, 2001. This decrease in profit margin was primarily due to reduction in sales of higher margin product for the period and costs associated with the Company's foreign operations.

Selling, general and administrative expenses decreased \$267,810 to \$733,076 in the three months ended March 31, 2002 from \$1,000,886 in the three months ended March 31, 2001. Selling, general and administrative expenses decreased due to cost cutting initiatives put in place by management as a response to the lower sales volume.

Income from operations for the Company decreased \$219,852 to \$82,395 for the three months ended March 31, 2002, compared to \$302,247 for the three months ended March 31, 2001. This decrease is the result of lower sales volume as well as changes in sales mix during the period, offset with reductions in sales, general and administrative expenses.

Interest expense increased \$11,625, to \$122,043 for the three months ended March 31, 2002 from \$110,418 for the three months ended March 31, 2001. The increase resulted from increased debt borrowings as well as higher interest rates from amended debt terms with Paccar.

Other income was \$68,242 for the three months ended March 31, 2002 compared to \$(33,626) for the three months ended March 31, 2001. This change is principally from increased VAT refund from foreign sales.

The Company's net and comprehensive income decreased \$129,609 to \$28,594, or \$0.02 per share, for the three months ended March 31, 2002 compared to \$158,203, or \$0.13 per share, for the three months ended March 31, 2001 due to decreases in sales, gross profit and increased in interest which were partially offset with reductions in SG&A costs and increases in other income.

RESULTS FOR THE NINE MONTHS ENDED MARCH 31, 2002 COMPARED WITH THE NINE MONTHS ENDED MARCH 31, 2001

The Company had net sales of \$12,748,459 for the nine months ended March 31, 2002. This represents a decrease of 25% compared to the nine months ended March 31, 2001 net sales of \$17,003,923. Sales have decreased due to an overall economic slowdown. The following table indicates the Company's net sales comparison and percentage of change for the nine months ended March 31, 2002 and 2001:

| | NINE MONTHS ENDED ENDED | % | NINE MONTHS | % | DOLLAR |
|----------------------------------|----------------------------|----------|--------------|----------|---------------|
| NET SALES | 3/31/02 | OF TOTAL | 3/31/01 | OF TOTAL | CHANGE |
| Power Transmission Components | \$ 10,043,553 | 79% | \$13,820,275 | 81% | \$(3,776,722) |
| Trailer and Implement Components | 2,704,906 | 21% | 3,183,648 | 19% | (478,742) |
| Consolidated | \$ 12,748,459 | 100% | \$17,003,923 | 100% | \$(4,255,464) |

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Gross profit for the nine months ended March 31, 2002 decreased \$927,250 to \$2,584,144, compared to gross profit for the nine months ended March 31, 2001 of \$3,511,394. This decrease in gross profit was primarily the result of reduced sales. Gross profit as a percentage of net sales for the nine months ended March 31, 2002 and 2001 was 20%.

Selling, general and administrative expenses decreased \$479,307 to \$2,644,536 in the nine months ended March 31, 2002 from \$3,123,843 in the nine months ended March 31, 2001. Selling, general and administrative expenses decreased due to cost cutting initiatives put in place by management as a response to the lower sales volume.

Income from operations for the Company decreased \$447,943 to \$(60,392) for the nine months ended March 31, 2002, compared to \$387,551 for the nine months ended March 31, 2001. This decrease is primarily the result of decreased sales, lower profit margins, offset by decreased selling, general and administrative expenses.

Interest expense decreased \$63,912, to \$304,549 for the nine months ended March 31, 2002 from \$368,461 for the nine months ended March 31, 2001. The decrease primarily resulted from a decrease in the average borrowing rate associated with the Company's line of credit to meet current inventory and working capital needs throughout the nine month period ended March 31, 2002 as well as the timing of borrowing amounts as compared to the nine month period ended March 31, 2001.

Other income was \$92,045 for the nine months ended March 31, 2002 compared to \$46 for the nine months ended March 31, 2001. This change primarily results from lower commission income for the period offset by an increase in VAT refunds related to foreign sales.

The Company's net and comprehensive income decreased \$291,315 to \$(272,179), or \$(0.23) per share, for the nine months ended March 31, 2002 compared to \$19,136, or \$0.02 per share, for the nine months ended March 31, 2001 due to decreases in sales and gross profit which were partially offset with reductions in SG&A costs, interest and increases in other income.

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 can not 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, Form 10-QSB's and Form 8-KSB filed with the Securities and Exchange Commission. Achievement of future results and these forward-looking statements

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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 the 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, 2001.

Item 2. Change in Securities.

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of

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1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 15, 2002

OMNI U.S.A., INC.

By: /s/ Jeffrey K. Daniel

Jeffrey K. Daniel
President and
Chief Executive Officer