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OMNI USA INC
Form 10KSB
October 13, 2005

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB
ANNUAL REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
COMMISSION FILE NUMBER: 0-17493

OMNI U.S.A., INC.
(Name of Registrant)

NEVADA
(State of Incorporation)

88-0237223
(IRS Employer
Identification No.)

7502 MESA ROAD, HOUSTON, TEXAS 77028
(Address of principal executive offices)

Issuer's telephone number: (713) 635-6331
Issuer's internet address: www.ousa.com
Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK \$.004995 PAR VALUE

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(g) of the Securities Exchange Act of 1934 during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days.

YES X NO
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Check if there is no disclosure of delinquent filers in response to Item 405 of Regulations S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form, 10-KSB. []

Issuer's revenues for its most recent fiscal year were \$21,007,038

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of October 12, 2005 was approximately \$1,277,075 based on quoted sales on the Over The Counter (OTC) Bulletin Board on such date.

The number of shares of the Registrant's common stock outstanding as of October 12, 2005 was 1,227,079.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

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Overview

History of the Company. Omni U.S.A., Inc. (the "Company"), a Nevada corporation, through its wholly-owned subsidiary, Omni U.S.A., Inc., a Washington corporation ("Omni-Washington") and Omni-Washington's wholly-owned subsidiary, Omni Resources, Ltd., a Hong Kong company ("Omni Resources"), through its wholly-owned manufacturing facility, Shanghai Omni Gear Co., Ltd. ("Shanghai Omni Gear"), designs, develops, manufactures and distributes power transmissions (also known as "gearboxes" or "enclosed geardrives") for use in agricultural, industrial, "off-highway" and construction equipment. The Company, through another wholly-owned subsidiary, Butler Products Corporation, designs, develops, manufactures and distributes trailer and implement jacks and couplers, which include light and heavy-duty jacks and couplers used in a variety of trailers. The Company's products are distributed to original equipment manufacturers and distributors in North America and in several foreign countries including Argentina, Australia, Brazil, Canada, France, Mexico, New Zealand, South Africa and Thailand. The Company began procuring the manufacture of its products by Chinese manufacturers in China in 1980, and since 1986 substantially all of its geardrives have been manufactured in China; 30% of its trailer and implement products are manufactured in China and approximately 70% of its trailer and implement products are manufactured in the United States.

Omni-Washington, the Company's primary operating subsidiary, was incorporated in 1961 and in 1974, began distributing power transmissions in the U.S., and later established Omni Resources to distribute its products in certain foreign markets. In 1988, Omni-Washington acquired the outstanding minority ownership interest in Omni Resources and thereafter operated it as a wholly owned subsidiary.

Effective July 1, 1988, Ed Daniel, the then sole shareholder, exchanged all of the outstanding stock of Omni-Washington for 6,650,000 shares of voting Common Stock of Triste Corporation, a Nevada corporation incorporated in 1988 ("Triste"), giving him a 42.5% interest in Triste. Triste thereafter changed its name to Omni U.S.A., Inc. ("Omni" or the "Company").

In December 1994, Omni Resources formed Shanghai Omni Gear, a Cooperative Joint Venture Limited Liability Company (the "Joint Venture"), with a Chinese manufacturing company that owns a multi-building manufacturing complex in Shanghai for the purpose of manufacturing planetary and industrial geardrives.

The Articles of Association of the Joint Venture provide that each joint venturer's liability for the obligations of the Joint Venture is limited to such joint venturer's investment. The Joint Venture has a thirty-year term, which can be extended for an additional ten years by consent of the joint venturers. The Joint Venture may be liquidated in the event of either party's failure to perform its obligations under the Joint Venture Agreement. Shanghai Omni Gear manufactures the Company's planetary and helical geardrive product lines. The facility is being used for assembly of planetary drives, helical geardrives and inspection of drives produced in other Chinese manufacturing facilities.

Shanghai Omni Gear was formed in accordance with the Law of the People's Republic of China on Cooperative Joint Ventures, and its activities are governed by all laws, decrees, rules and regulations of the People's Republic of China, including, but not limited to, labor and employment, tax, foreign exchange and insurance laws and regulations. Shanghai Omni Gear is obligated to contribute five percent of its after-tax profits per year, up to a maximum of 50% of the registered capital of the Company (or \$1,312,500) to a reserve enterprise development and welfare fund for staff and workers.

The Chinese manufacturer contributed to the Joint Venture the use of land and factory space in its manufacturing complex under a 30-year facilities lease;

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Omni Resources agreed to contribute an aggregate of \$2,625,000 in working capital, leasehold improvements, machinery and other assets required to establish a fully operational manufacturing facility, and, as of the date hereof, has contributed approximately \$3,270,000 to the Joint Venture. Omni Resources controls Shanghai Omni Gear, as it appoints a majority of Shanghai Omni Gear's Board of Directors and also appoints the General Manager of the Joint Venture. The Chinese manufacturer has a single representative on Shanghai Omni Gear's Board of Directors and does not participate in the profits of Shanghai Omni Gear; its only return from Shanghai Omni Gear being a rental fee from the facilities lease.

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On October 1, 1996, the Company acquired 100% of the common stock of Butler Products Corporation ("Butler"). Consideration paid to the shareholders of Butler included \$225,000 in cash, \$500,000 in junior subordinated notes. Located in Butler, Kentucky, Butler is a long-standing manufacturer of jack and trailer products typically sold to manufacturers and distributors of heavy-duty trailers.

Commencing July 1, 1997, all towing products designed, developed, manufactured and sold by the Company are marketed under the "Butler" name and associated trademarks; all power transmission products designed, developed, manufactured and sold by the Company are marketed under the "Omni Gear" name and associated trademarks.

On July 16, 1999, Butler acquired the assets of Piecemaker, Inc. ("Piecemaker"), a manufacturer of horse, agricultural and utility trailer components located in Madill, Oklahoma. Subsequent to the Piecemaker acquisition, Butler consolidated its small jack and coupler manufacturing facilities with that of Piecemaker in Madill, OK. During fiscal year 2003, Piecemaker divested itself of approximately \$253,000 in inventory held for resale but not manufactured by Piecemaker.

On June 14, 2001, the Company effected a reduction in the number of authorized shares of common stock and a corresponding one-for-three reverse stock split of its common stock at a special meeting of the Board of Directors. In addition, all holders of options or warrants to purchase future shares of the Company's common stock were reduced on an equal basis of three to one. The par value of the common stock was unchanged. The move was initiated to raise the Company's share price above the \$1.00 minimum level, which would enable Omni's stock to meet the requirements and continue to trade on the NASDAQ SmallCap Market.

On June 7, 2002, June 19, 2002 and September 10, 2002, the Company received notification from NASDAQ that the Company's stock would be removed from the NASDAQ listing as Omni's share price had fallen below the minimum required ask price of \$1.00 per share and as the Company's Minimum Value of Publicly Held Securities had fallen below the minimum of \$1,200,000. As of November 12, 2002 the Company is no longer listed on the NASDAQ exchange and is currently listed and traded on the Over the Counter (OTC) Bulletin Board.

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. The Company believes that the consolidation of manufacturing operations will reduce costs with little or no adverse impact to future sales levels.

Since the Company began selling power transmission products in 1974, it has

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achieved a number of competitive advantages including:

- (i) Strong customer relationships and a reputation for quality products at a good value;
- (ii) Recognition as the low cost producer in the industry resulting from the Company's extensive Chinese manufacturing capability with Chinese contract manufacturers and with Shanghai Omni Gear;
- (iii) Substantial market penetration in the agricultural implement market with right-angle gear boxes;
- (iv) Reputation for responsive customer service;
- (v) Recognition for design innovation in response to customers needs; and
- (vi) The accumulation of a substantial body of technical and industry specific knowledge.

The Company plans to build on this base of strategic advantages in its attempt to achieve growth in both sales and profits in the power transmission segment. To achieve this objective the Company has developed a growth strategy encompassing the following:

- (i) Expand market share in the planetary and industrial markets for power transmission components;
- (ii) Continued improvement in operating efficiencies in Shanghai Omni Gear;
- (iii) New product innovation and development; and
- (iv) Evaluate new business opportunities, asset acquisitions and potential sales that maximize shareholder value and benefit the Company.

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Products

OMNI GEAR

Power Transmission Components. Power transmissions (also known as "enclosed geardrives" or "gearboxes") are configurations of gears enclosed in a housing or casing that transfer or transmit power from one point to another. Omni Gear currently distributes a standard product line of over 300,000 gearbox configurations. As a percentage of revenues, Omni Gear's power transmission components are its most significant product, representing 85% and 83% of the Company's revenues in fiscal years 2005 and 2004, respectively.

Although Omni Gear distributes power transmissions for numerous applications and purposes, the majority of its sales revenues are derived from sales of power transmission components manufactured for three distinct applications:

Agricultural equipment. Omni Gear distributes power transmissions for tractor powered implements with capacities ranging from 3 to 300 horsepower for use in agricultural equipment, including post hole diggers, which are accessories attached to tractors used to dig post holes for fencing and tree planting; rotary cutters, which are large, heavy-duty mowers for use in agriculture and highway right-of-way and recreational area maintenance; grain augers, which convey grain to the top of grain silos; and geardrives for fertilizer spreader and roto-tiller applications.

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Irrigation systems. Omni Gear distributes right-angle gearboxes for vertical turbine pumps and electro-mechanical drivetrain components for mechanized irrigation. Omni Gear supplies both helical gear and worm gear primary drive units, some of which are integrated with electric motors, as well as worm gear and planetary gear final drives.

Construction, mobile off-highway, industrial and utility equipment. Omni Gear distributes planetary drive power transmissions for use in construction, mobile off-highway (which includes a wide variety of equipment designed for use in rugged terrain, construction sites, or undeveloped areas), industrial, and utility equipment, such as four-wheel drive forklifts, skid steer loaders, telephone and power cable installation and replacement equipment, road rollers and dirt compactors. Planetary geardrives utilize more complex configurations of gears and are used in applications where transmission of high torque at low speeds is needed. Omni Gear believes that it can expand its share of the market of planetary drives, and Omni Gear's goal of increased production of these products was a primary factor in the Company's decision to establish a manufacturing facility in China.

BUTLER

Trailer and Implement Components. Butler manufactures a wide variety of jacks with capacities ranging from 1,000 lbs. to 220,000 lbs. These jacks are used to level and lift various trailers, agricultural implements and equipment for recreational, utility, construction, agricultural and trucking industries as well as for military applications. Butler's products include heavy-duty implement jacks, spring return jacks, stabilizing jacks and wheel chocks for semi-trailers, a series of high density polyethylene lubricating plates for the trucking industry and a complete line of bumper-pull and gooseneck couplers for trailers with gross weights up to 30,000 lbs. Butler's Oklahoma facility manufactures component parts for horse, livestock and utility trailers. Their products include greaseable gate and hinge sleeves, back gate handles and extensions, roller pin assemblies, spring loaded latches, butt bars and plates, hinge assemblies and roof bows. As a percentage of revenues, trailer and implement component sales represented 15% and 17% of the Company's net sales in fiscal years 2005 and 2004, respectively.

New Products. The Company continues to improve its products and expand product application. Currently, the Company is designing gearboxes to expand its agricultural, universal, bevel, irrigation, planetary, commercial turf and mobile utility geardrive product lines and Butler product lines.

Product Manufacturing

Current Manufacturing Arrangements. A majority of the Company's geardrives are assembled incorporating raw materials and components manufactured or produced in China by four manufacturers, some of whom the Company has been doing business with since 1980. The Company believes that these manufacturers can be relied upon to provide a reliable source of quality manufactured goods for the foreseeable future. The Company and certain manufacturers have from time to time

memorialized their working relationships in written memoranda. In the Company's experience, business relationships in China are not established and are not governed by written agreements of contract, and the Chinese legal system is not sufficiently developed to provide for the enforcement of contracts or remedies to an aggrieved party in the event of a breach of contract. Rather, business in

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China is conducted primarily upon the basis of personal relationships among the parties, and commercial disputes are resolved almost entirely through negotiation. The Company believes that it has established solid working relationships with these factories. These relationships are and will continue to be critical to the Company's ability to obtain quality manufactured products on acceptable terms.

The Company owns a 35,000 square foot facility in Butler, Kentucky where all jacks from 10,000 lbs. to 220,000 lbs. capacities are manufactured. The light-duty jacks and bumper pull and gooseneck couplers are manufactured in China in accordance with Butler's quality specifications.

Availability of Raw Materials and Components. Product components and raw materials are currently purchased from numerous suppliers in the U.S. and China, selected by the Company on the basis of available production capacity, reputation for quality, and relative costs. The Company believes that there are sufficient supplies of raw materials and components in China to meet its needs for the foreseeable future, and the Company's suppliers have generally been able to meet the Company's specifications and schedules. However, in the few instances in which resources of sufficient quality have not been available in China, the Company has generally encountered little difficulty in locating substitutes outside China and importing them for production. Based on the number of potential suppliers in China, the Company does not believe that the loss of any supplier would have a material adverse effect on the Company.

Manufacturing Capacity. At this time, the Company has the ability to expand its Shanghai Omni Gear facility to accommodate customer demand. The contract manufacturers it currently employs possess sufficient excess capacity to meet the Company's production requirements for the foreseeable future. Based on the number of potential manufacturers in China and excess capacity of manufacturers currently used, the Company does not believe that the loss of services of any single manufacturer would have a material adverse effect on the Company.

Distribution, Sales and Marketing

Distribution. The Company distributes its products primarily to original equipment manufacturers and distributors. Customers with limited requirements, and most of the Company's North American customers, typically purchase Omni Gear product from inventories. Omni Resources, including Shanghai Omni Gear, on the other hand, ships parallel shaft and planetary geardrive products, marketed under Omni Gear, directly from the factory to U.S. customers and foreign customers located primarily in Australia, Europe, South America and Japan, or to other customers that purchase entire containers or production runs of Omni Gear products. Butler distributes its products to after-market distributors, trailer OEMs and export brokers. All products are shipped from Butler's manufacturing facility in Butler, Kentucky or prior to fiscal 2004 from Butler's facility in Madill, Oklahoma. Sales are divided between Omni Gear, Omni Resources, and Butler based on product line, location of the customer and size of the orders, with the majority of the sales to customers in the United States.

On October 3, 1994, the Company and its subsidiaries signed an exclusive ten-year distribution agreement (the "Distribution Agreement") with the Braden Winch division of PACCAR Inc. ("PACCAR"), an international manufacturer, marketer and distribution of winches and planetary geardrives located in Broken Arrow, Oklahoma. The Distribution Agreement was modified and amended on September 9, 1999. The amendment extended the Distribution Agreement to 2014. Under the terms of the Distribution Agreement, PACCAR will market and distribute throughout the world (except Japan and China) planetary drives, parts and accessories designed and manufactured by the Company. The drives and parts will be marketed by PACCAR under the "Braden" trademark and trade name owned by PACCAR. The Company retained the rights to sell its products in Japan and China, and also retained the right to market its planetary drives under its own name to

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certain original equipment manufacturers that it now services and to all current and potential pivot irrigation makers or after-market resellers for products designed exclusively for the irrigation market. By agreement dated April 30, 2001, the distribution agreement was modified to allow the Company to distribute planetary drives, parts and accessories designed and manufactured by the Company in the world market. PACCAR may continue to represent the Company on an exclusive customer basis at the Company's option.

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The Company previously had a long time distribution agreement with Champion Gear. In December 2002, the Company purchased all the assets of Champion Gear, including customer and market information and all rights under the product distribution agreement for \$75,000, forgiveness of notes receivable of \$25,328 and settlement of all claims made by and counterclaims against the Company. The purchase has been recorded in other assets.

Sales. The Company's sales are influenced by a variety of seasonal, economic and climatic factors affecting its customers, many of which are difficult to predict. Since a large proportion of the Company's products are utilized in the agriculture industry, the Company's sales are lower during the fall and winter months while farming and ranching activity is slower. Drought, flooding, commodity prices, government subsidies and U.S. Agricultural Department policies that affect farmers also impact demand for the Company's products. The Company believes that the seasonality in its sales will become less pronounced as it increases its market share in the construction, off-highway and utility equipment markets.

The Company does not currently hold any government contracts, nor does it sell more than an insignificant portion of its products to any governmental agency. Accordingly, none of its contracts and subcontracts or purchase orders are subject to governmental re-negotiation or cancellation.

Marketing. The Company distributes product catalogs to prospects, as well as soliciting sales directly from new customers. From time to time, the Company has also acquired customer lists which it uses as a basis for solicitation of new customers, as well as solicited sales by manufacturer's representatives, distributors, direct marketing and trade shows. Sales to new customers are rarely an effort by a salesperson alone and Company engineers are often required to consult with prospective customers, assist in identifying, designing and developing products that fulfill a new customer's particular requirements. After a sale is made, Company engineers continue to consult with the customer on product improvements and modifications. Power transmissions are usually manufactured according to a customer's specific applications and specification. Because incorporating a power transmission manufactured by a different supplier may require changes in product design or expensive retooling, customers often do not replace a current supplier's product with a standard product of another manufacturer and therefore do not frequently change suppliers of power transmissions. Accordingly, while the Company regularly solicits additional sales from new customers, a large portion of its sales are made to existing customers with minimal marketing effort.

Inventories, Firm Orders and Backlogs. The Company maintains approximately \$1,365,000 in inventory at the Houston, Texas facility, approximately \$810,000 at the Butler, Kentucky facility, approximately \$687,000 at the Shanghai, China facility, approximately \$270,000 in Brazil and approximately \$160,000 in transit. Additionally, the Company has access to inventory located in bonded warehouses and vendor facilities. The Company forecasts sales 12 months in advance and maintains a three month rolling production schedule, which permits the Company to maintain sufficient inventories to meet projected requirements of its customers yet avoids excessive investments in inventory. The Company expects

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that current inventory and production levels in the next fiscal year will adequately supply product to fulfill the Company's backlog of orders.

As of June 30, 2005, the Company's backlog was approximately \$8,163,000. The Company determines the amount of backlog by estimating purchases to be made by established customers with blanket purchase orders with the Company. Average delivery time for the Company's power transmission equipment varies depending upon the product. The Company can often fill and ship an order from inventory in twenty-four hours; orders for products that require minimal modification to an existing product can often be shipped in a few days; and custom products requiring extensive design and retooling for production can require a six month production schedule. The Company believes that its entire backlog is shippable in the next fiscal year.

Competition. The power transmission market is supplied by numerous American and foreign manufacturers, ranging from conglomerates that distribute broad product lines to customers around the world, to small manufacturers that produce a limited number of products for specific applications to limited markets. Accordingly, the market for power transmissions is difficult to define. The Company identifies its competition according to power transmission and trailer and implement components.

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Power Transmission Components. In sales of power transmissions for 1) rotary cutter, 2) tractor-powered implement and 3) universal geardrive product lines, Omni Gear competes with a number of U.S. and foreign companies, including Comer S.p.A. and Bondioli & Pavesi, each of which are Italian companies, and Curtis Machine, Inc., Superior Gearbox Mfg., Inc., Hub City and Durst (both divisions of Regal-Beloit Corporation), and ITG, all of which are American companies, together with geardrives which are self-produced by certain OEM's. Published statistics of the size of the market are not readily available.

In sales of the irrigation geardrive market, Omni Gear's most significant competitors in the marketplace are Durst and Ohio Gear (both divisions of Regal-Beloit Corporation), U.S. Motors (a division of Emerson Electric), and Universal Motion Components, together with irrigation geardrives which are self-produced by certain OEM's.

The Company estimates that the North American market for planetary gearboxes with torque capacities up to 120,000 lbs. that Omni Gear can currently supply is approximately \$150,000,000 in sales per year, and that this market is currently dominated by Auburn Gear, Fairfield Manufacturing and Eskridge Manufacturing, all American companies. Other companies which supply planetary geardrives in these rated torque capacities as a part of their overall planetary products include Gear Products (a division of Blount), DP Manufacturing, Tulsa Winch (a division of Dover), all American companies, and Brevini, Bosch Rexroth AG, KYB, Carraro, Regiana & Riddutori, Teijin Seiki, and Trasmital Bonfiglioli, all foreign companies. Omni Gear believes that it can increase its share in this market in the future in spite of weak demand for construction and off-highway equipment by providing quality product at reduced prices.

Trailer and Implement Components. In sales of Butler light duty product lines, Butler competes with a number of U.S. and foreign companies, including Atwood, Fulton and Hammerblow. Butler's heavy-duty product lines compete with a number of U.S. and foreign companies, including Kaiser Austin Westran, Jost, Holland/Binkley, and Sudisa.

The Company's most important competitive advantage is its competitive pricing afforded by inexpensive Chinese labor and manufacturing costs. The Company believes that it is competitive in its industry with respect to warranty

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and return matters, payment terms, and product quality.

Employment. The Company currently employs approximately two hundred sixteen persons worldwide; (i) two hundred by Shanghai Omni Gear, (ii) sixteen at the Company's Houston, Texas facility, (iii) twenty-five at the Company's facilities in Butler, Kentucky, (iv) two by Omni Gear do Brazil, and (v) two by Omni Resources. Nineteen of Butler's twenty-five employees are unionized. No other Company employees are unionized or attempting to unionize. Management believes its relations with its employees, union and non-union, are good.

Research and Development. The Company currently employs three full-time engineers who design products to meet new customer specification or applications and to make refinements in product manufacturing processes and product quality. Research and development expenses, unless otherwise specified, are reflected in the Company's financial statements as part of operating expenses.

Intangible Properties. The Company manufactures, advertises and sells its products under numerous trademarks. Omni(R), Omni USA(R), Omni Gear(R), and Butler(TM) trademarks are the primary marks under which the Company's products are sold. The Company also owns other trademarks under which gearbox products are sold such as RC-20(R), RC-30(R), RC-51(R), RC-61(R), RC-61T(R), RC-65T(R), RC-71(R), RC-81(R), RC-91(R), RC-110(R), RCD-101(R), PHD-26HD(R), PHD-50A(R), PHD-75(R), IR-15(R), IR-50(R), OFD-50(R), RC-130(TM), RC-25(TM), Irri-Torq(TM), Voyager(R), Galaxy(TM), Enforcer(TM), Enforcer II(TM), Slick Disc(TM), and Slider(R). Management believes that the Company's trademarks are well known in its markets, are valuable and that their value is increasing with the development of its business. The Company is not dependent on any one such trademark. The Company vigorously protects its trademarks against infringement. The Company has registered its trademarks in the appropriate jurisdictions.

Environmental Matters. The Company is not a party to any legal or regulatory proceedings seeking to impose liability or responsibility for any environmental damages or violations of any environmental laws or regulations, nor is it aware of any circumstances in which its activities in China or in the United States have created any basis for any environmental liability or responsibility for damages.

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Government Regulation. The Company is not subject to governmental regulations other than those that typically apply to businesses importing foreign manufactured goods into the United States and other countries, such as customs laws and regulations. The Joint Venture is subject to certain Chinese laws and regulations governing labor and employment, taxation, insurance, foreign exchange, and other business matters, but the Company does not regard these laws and regulations as significantly different in form or effect as those that apply to the Company generally.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases facilities located in Houston, Texas and Shanghai, China, and owns a 35,000 square foot manufacturing facility in Butler, Kentucky.

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 Phenix Investment Company, a real estate investment company located in Houston, Texas under a long-term lease expiring July 2005, at a rate of \$8,500 per month.

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Shanghai Omni Gear leases buildings in a manufacturing complex containing approximately 130,000 square feet pursuant to a 30-year lease at a rate of approximately \$10,000 per month. The existing space is sufficient for the activities currently conducted there; however, Shanghai Omni Gear has the ability to acquire additional space in the complex if needed to expand future operations.

The Company believes that its facilities are adequate for its needs in the foreseeable future. In the event that any of the facilities became unavailable for use by the Company for any reason, the Company believes that alternative facilities are available on terms and conditions acceptable to the Company.

ITEM 3. LEGAL PROCEEDINGS

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.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the security holders of the Company during the quarter or fiscal year ended June 30, 2005.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock trades on the NASDAQ Over-The-Counter tier of the NASDAQ Stock Market under the symbol "OUSA".

The following table sets forth in the periods indicated the range of low and high sales prices per share of the Company's Common Stock traded as reported by the NASDAQ Stock Market (amounts have been restated to account for the reverse stock split):

| Quarter Ending | Low | High |
|----------------|------|------|
| ----- | ---- | ---- |
| 06/30/03 | 0.35 | 1.01 |
| 09/30/03 | 0.50 | 1.80 |
| 12/31/03 | 0.70 | 0.70 |
| 03/31/04 | 0.36 | 1.12 |
| 06/30/04 | 0.88 | 1.65 |
| 09/30/04 | 1.01 | 2.00 |
| 12/31/04 | 1.11 | 2.35 |
| 03/31/05 | 1.32 | 2.33 |

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06/30/05 0.90 1.80

As of October 12, 2005, the closing price of the Company's Common Stock was \$1.75 per share. As of June 30, 2005, there were approximately 607 holders of record of the Company's Common Stock.

The Company has never paid cash dividends on its Common Stock. As a result of net losses in prior fiscal years, the Company has a cumulative retained deficit of \$2,748,436 as of June 30, 2005; accordingly, the Company may be prohibited by legal restrictions on capital from paying cash dividends for the foreseeable future. In addition, the Company's revolving line of credit facility prohibits the payment of dividends. While any determination as to the payment of cash dividends will depend upon the Company's earnings, general financial condition, capital needs, and other factors, the Company presently intends to retain any earnings to finance working capital needs and expand its business, and therefore does not expect to pay cash dividends in the foreseeable future.

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ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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 \$1,606,487 at June 30, 2005. The Company had working capital of \$1,766,846 as of June 30, 2005 and \$2,436,124 as of June 30, 2004; a decrease of \$669,278 during the fiscal year ended June 30, 2005. The change in working capital was due primarily to decreases in accounts receivable, accounts payable, inventory, and borrowings on short-term debt offset by increases in accrued expenses and payments on the Company's lines of credit in the fiscal year ended June 30, 2005.

The Company had negative cash flow of \$131,374 which resulted in a cash balance of \$401,648 at the year ended June 30, 2005, compared to the June 30, 2004 cash balance of \$533,022. The negative cash flow was generated by increases in payments to the line of credit and notes payable and capital additions and the net loss for the year.

The inventory balance as of June 30, 2005 was \$3,292,510, a decrease of \$720,711 compared to the June 30, 2004 inventory of \$4,013,221.

The Company's cash used in investing activities for the year ended June 30, 2005 of \$229,601 consisted primarily of capital expenditures for fixed assets compared to \$150,160 for the year ended June 30, 2004. The Company believes that its present facilities and planned capital expenditures are sufficient to provide adequate capacity for operations in the next fiscal year.

Net cash provided from financing activities for the year ended June 30, 2005 of \$354,257 consisted primarily of borrowings on the Company's line of credit offset by payments to long term debt and notes payable.

The Company's current ratio was 1.36 as of June 30, 2005, which is a 13% decrease when compared to the June 30, 2004 current ratio of 1.56.

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

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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 the assets of the Houston, Texas and Butler, Kentucky subsidiaries only and by 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.

The Company's businesses are working capital intensive and require funding for purchases of production, inventories and capital expenditures. The Company has debt service requirements including payments on notes and monthly interest payments on the Company's bank credit facilities. Management believes that cash generated from operations, together with the Company's bank credit facilities, provides the Company adequate liquidity to meet the Company's operating and debt service requirements. 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 its 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.

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Results of Operations

Fiscal year ended June 30, 2005, compared to fiscal year ended June 30 2004. The Company's business is cyclical and dependent on industrial spending levels and is impacted by the strength of the economy and other factors. The Company had net sales of \$21,007,038 for the year ended June 30, 2005. This represents an increase of 10% compared to the year ended June 30, 2004 net sales of \$19,151,939. The following table indicates the Company's net sales comparison and percentage of change for the years ended June 30, 2005 and 2004:

| NET SALES | YEAR ENDED 6/30/05 | % OF TOTAL | YEAR ENDED 6/30/04 | % OF TOTAL | DOLLAR CHANGE |
|----------------------------------|-----------------------|---------------|-----------------------|---------------|------------------|
| Power Transmission Components | \$17,780,531 | 85% | \$15,961,652 | 83% | \$1,826,111 |
| Trailer and Implement Components | 3,226,507 | 15% | 3,190,287 | 17% | 39,326 |
| Consolidated | \$21,007,038 | 100% | \$19,151,939 | 100% | \$1,865,437 |

The increase of net sales in the power transmission business segment was due to increased orders from existing customers

Gross profit for the year ended June 30, 2005 decreased \$127,369 to \$4,408,724, compared to gross profit for the year ended June 30, 2004 of \$4,536,093. The decrease in gross profit is due primarily to increase in net sales, and ongoing efforts to manage and decrease overhead. Gross profit as a percentage of net sales was 21% for the year ended June 30, 2005 and 24% for the year ended June 30, 2004.

Selling, general and administrative expenses increased \$634,587 to \$4,456,237 in the year ended June 30, 2005 from \$3,821,650 in the year ended June 30, 2004. Selling, general and administrative expenses as a percentage of sales was 21% for the year ended June 30, 2005 and 20% for the year ended June 30, 2004. The increase in selling, general and administrative expenses are due

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to increased operational support required by the increase in sales activity.

Income from operations for the Company decreased \$761,956 to (\$47,513) for the year ended June 30, 2005, compared to \$714,443 for the year ended June 30, 2004. This decrease is primarily the result of increased selling, general, and administrative expenses and the decrease in gross profit during the year ended June 30, 2005.

Interest expense decreased \$2,719, to \$435,897 for the year ended June 30, 2005 from \$438,616 for the year ended June 30, 2004. The decrease in interest expense is nominal compared to the previous fiscal year.

Other income, net (expense) was an expense of (\$97,821) for the year ended June 30, 2005 compared to an income of \$28,898 for the year ended June 30, 2004. The change was mostly attributable to write-off of the goodwill in one of the subsidiaries.

The Company's net income decreased \$851,859 to a loss of (\$639,020), or (\$0.53) per share, for the year ended June 30, 2005 compared to \$282,301, or \$0.24 per share, for the year ended June 30, 2004.

Critical Accounting Policies

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company anticipates no material impact on the consolidated financials from adoption of SFAS 148.

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In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). This Statement prescribes how an issuer classifies and measures certain financial instruments. Financial instruments within the scope of SFAS 150 are required to be classified as liabilities (or assets in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company July 1, 2003. There was no impact to the Company from adopting SFAS 150.

Cautionary Statement

This Annual Report on Form 10-KSB contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words "believes," "anticipates," "plans," "expects," and other similar expressions are intended to identify forward-looking statements. Investors are cautioned that such forward-looking statements are based on the current expectations of management and are inherently subject to a number of risks and uncertainties that could cause the actual results of the Company to differ materially from such forward-looking statements. Forward-looking statements involve risks and uncertainties, including, but not limited to, continued acceptance of the Company's products in the marketplace, competitive factors, new products and technological changes, the Company's dependence upon third-party suppliers, political and economic circumstances in China, ability to

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access or renew credit facilities and service long term debt facilities and other risks detailed from time to time in the Company's periodic report filings with the Securities and Exchange Commission. Investors are directed to the Company's periodic reports filed with the Securities and Exchange Commission. The Company is not obligated to update or revise the aforementioned statements for those new developments.

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ITEM 7. FINANCIAL STATEMENTS

OMNI U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2005 and 2004

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Harper & Pearson Company
One Riverway, Suite 1000
Houston, Texas 77056

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and
Board of Directors of
Omni U.S.A., Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Omni U.S.A., Inc. and Subsidiaries as of June 30, 2005 and 2004, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Omni U.S.A., Inc. and Subsidiaries at June 30, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States.

/s/ HARPER & PEARSON COMPANY

Houston, Texas
October 7, 2005

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OMNI U.S.A., INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS JUNE 30, 2005 AND 2004

| | 2005 | 2004 |
|---|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 401,648 | \$ 533,022 |
| Accounts receivable, trade, net | 2,581,750 | 2,042,392 |
| Accounts receivable, related parties | 11,475 | 24,740 |
| Inventories, net | 3,292,510 | 4,013,221 |
| Notes receivable, trade | 57,878 | -- |
| Prepaid expenses | 320,949 | 200,041 |
| | 6,666,210 | 6,813,416 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization | 1,365,827 | 1,522,830 |
| OTHER ASSETS - primarily intangible assets, net | 275,028 | 329,756 |
| | \$ 8,307,065 | \$ 8,666,002 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 2,142,684 | \$ 2,430,087 |
| Revolving line of credit | 1,606,487 | 347,040 |
| Accrued expenses | 346,159 | 256,031 |
| Current portion of notes payable | 804,034 | 1,344,134 |
| | 4,899,364 | 4,377,292 |
| NOTES PAYABLE | 649,346 | 1,014,436 |
| | ----- | ----- |
| STOCKHOLDERS' EQUITY | | |
| Common stock (1,227,079 shares issued and 1,227,079 and 1,171,812 shares outstanding at June 30, 2005 and 2004, respectively) | 6,129 | 6,129 |
| Additional paid-in capital | 5,372,815 | 5,372,815 |
| Treasury stock (0 and 55,267 shares at June 30, 2005 and 2004, respectively) | -- | (100,071) |
| Retained deficit | (2,748,436) | (2,109,416) |
| Foreign currency translation adjustment | 127,847 | 104,817 |
| | 2,758,355 | 3,274,274 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 8,307,065 | \$ 8,666,002 |
| | ===== | ===== |

See accompanying notes.

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CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

| | 2005 | 2004 |
|---|---------------|---------------|
| | ----- | ----- |
| NET SALES | \$ 21,007,038 | \$ 19,151,939 |
| COST OF SALES | (16,598,314) | (14,615,846) |
| | ----- | ----- |
| Gross Profit | 4,408,724 | 4,536,093 |
| OPERATING EXPENSES | | |
| Selling, general and administrative | (4,456,237) | (3,821,650) |
| | ----- | ----- |
| Operating (loss) income | (47,513) | 714,443 |
| OTHER INCOME (EXPENSE) | | |
| Commission income, net | (57,789) | (22,424) |
| Interest expense | (435,897) | (438,616) |
| Other, net | (97,821) | 28,898 |
| | ----- | ----- |
| (LOSS) INCOME BEFORE INCOME TAX EXPENSE | (639,020) | 282,301 |
| INCOME TAX EXPENSE | -- | -- |
| | ----- | ----- |
| NET (LOSS) INCOME | (639,020) | 282,301 |
| GAIN ON FOREIGN CURRENCY TRANSLATION ADJUSTMENT | 23,030 | 8,572 |
| | ----- | ----- |
| COMPREHENSIVE (LOSS) INCOME | \$ (615,990) | \$ 290,873 |
| | ===== | ===== |
| BASIC (LOSS) INCOME PER SHARE | \$ (0.53) | \$ 0.24 |
| | ===== | ===== |
| DILUTED (LOSS) INCOME PER SHARE | \$ (0.53) | \$ 0.24 |
| | ===== | ===== |

See accompanying notes.

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OMNI U.S.A., INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

| | Common Stock | | Additional Paid-In Capital | Treasury Stock | Retained Deficit |
|--|------------------------------------|---------|----------------------------------|-------------------|---------------------|
| | Number of Shares Outstanding | Amount | | | |
| Balance, June 30, 2003 | 1,171,812 | \$6,129 | \$5,372,815 | \$(100,071) | \$(2,391,717) |
| Net Income (Loss) | | | | | 282,301 |
| Unrealized gain on foreign currency translation adjustment | | | | | |
| | ----- | ----- | ----- | ----- | ----- |

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| | | | | | |
|--|------------------|----------------|--------------------|--------------|-----------------------|
| Balance, June 30, 2004 | 1,171,812 | 6,129 | 5,372,815 | (100,071) | (2,109,416) |
| Treasury stock issued for services and patents | 55,267 | | | 100,071 | |
| Net Income (Loss) | | | | | (639,020) |
| Unrealized gain on foreign currency translation adjustment | | | | | |
| Balance, June 30, 2005 | <u>1,227,079</u> | <u>\$6,129</u> | <u>\$5,372,815</u> | <u>\$ --</u> | <u>\$ (2,748,436)</u> |

See accompanying notes.

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OMNI U.S.A., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

| | 2005 | 2004 |
|--|--------------|--------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (Loss) Income | \$ (639,020) | \$ 282,301 |
| | ----- | ----- |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation and amortization | 362,427 | 344,980 |
| Treasury stock issued for services | 9,571 | -- |
| Goodwill impairment charge | 169,402 | -- |
| Changes in operating assets and liabilities: | | |
| Accounts and notes receivable | (583,971) | 1,917,572 |
| Inventories | 720,711 | 887 |
| Prepaid expenses | (120,908) | 24,008 |
| Accounts payable and accrued expenses | (197,272) | (577,903) |
| Other assets | -- | (10,509) |
| | ----- | ----- |
| Total adjustments | 359,960 | 1,699,036 |
| | ----- | ----- |
| Net cash provided by operating activities | (279,060) | 1,981,337 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (190,424) | (150,160) |
| Acquisition of intangible and other assets | (39,177) | -- |
| | ----- | ----- |
| Net cash used by investing activities | (229,601) | (150,160) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from borrowings on lines of credit | 22,081,109 | 12,818,577 |
| Payments on line of credit | (20,821,662) | (15,211,546) |
| Payments on notes payable | (905,190) | 377,013 |
| | ----- | ----- |
| Net cash used by financing activities | 354,257 | (2,015,956) |
| | ----- | ----- |

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| | | |
|---|------------|------------|
| Gain on foreign currency translation adjustment | 23,030 | 8,572 |
| | ----- | ----- |
| NET DECREASE IN CASH | (131,374) | (176,208) |
| CASH AT BEGINNING OF PERIOD | 533,022 | 709,230 |
| | ----- | ----- |
| CASH AT END OF PERIOD | \$ 401,648 | \$ 533,022 |
| | ===== | ===== |

See accompanying notes.

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NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation - Omni U.S.A., Inc. (the Company) is incorporated in the state of Nevada. The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Omni U.S.A., Inc. (a Washington Company), Omni Resources, Ltd. (a Hong Kong Corporation), Butler Products Corporation (a Kentucky Corporation) and Omni Gear do Brazil (a Brazilian Company). The financial statements of Omni Resources, Ltd. include the activity of its wholly-owned subsidiary, Shanghai Omni Gear Co., Ltd. located in Shanghai, China. All material inter-company transactions and balances have been eliminated in consolidation.

Organization and Business - The Company designs, develops, manufactures and distributes power transmission components and trailer and implement components, used primarily for agricultural, material handling, mobile off-highway and industrial purposes, to original equipment manufacturers and distributors worldwide. The Company's manufacturing and distribution system involves locating qualified domestic or foreign manufacturers of products, (in the case of contract manufacturing) contracting with such manufacturers, and distributing to an ultimate third party customer. The Company also self-produces products using both domestic and foreign components. Since 1986, the Company's power transmission products have been manufactured primarily in China and approximately 70% of the Company's towing products are manufactured in the United States. In 2002, the Company formed Omni Gear do Brazil to distribute its products in Brazil and South America. Currently, its operations have been minimal and limited to sales to primarily one customer.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition - The Company adopted The Securities and Exchange Commission Staff Accounting Bulletin (SAB) 101 in the fourth quarter of the fiscal year ended June 30, 2001 and the Company's revenue recognition policies are in compliance with SAB 101. The Company's acceptance provisions, as some products are manufactured to customer specifications, are that customers must approve engineered drawings in advance, place a firm purchase order with the Company for manufacture of the products and initially approve a representative sample prior to manufacture. Costs of shipping and handling for the Company are generally accounted for as a

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component of cost of sales with revenues recorded gross. The Company recognizes revenues upon shipment to the customer.

Warranties - The Company's policy for warranties stipulates that Omni Gear's products and Butler Products' products are warranted to be free of defects in material and workmanship and to meet Omni Gear's and Butler Products' specifications at the time of sale. The Company accounts for warranties by accruing a liability for warranty provision based on the Company's historical analysis of warranty costs. To date, however, actual return rates have been very low and incremental costs associated with those returns have been historically immaterial to the Company. The Company has a policy for sales returns, whereby the customer may apply for and be granted the right to return product for warranty consideration. Once returned, the product is inspected for warranty qualification and, if granted, warranty work is performed and the product generally returned to the customer.

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NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables and cash. The Company places its cash with high credit quality financial institutions. Cash in financial institutions located abroad totaled \$250,152 and \$436,952 in 2005 and 2004, respectively.

Trade accounts receivable consist of receivables from both domestic and foreign customers in various industries and geographic regions worldwide, with more than one half of consolidated sales being to customers in the Southern and Central United States. Generally, no collateral or other security is required to support customer receivables. An allowance for doubtful accounts is established as needed based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Sales of receivables without recourse under the Company's factoring arrangement as further discussed in Note 2 are recorded as a sale of assets.

As of June 30, 2005, one customer accounted for 27% of consolidated receivables. As of June 30, 2004 one customer accounted for 15% of consolidated receivables.

Notes receivable result from sales made with extended credit terms and are payable in monthly installments and carry interest.

The Company has inventory located in China of approximately \$687,000 and \$985,000 at June 30, 2005 and 2004, respectively and in Brazil of approximately \$270,000 and \$146,000 at June 30, 2005 and 2004, respectively.

Inventories - Inventories are stated at the lower of cost or market using the weighted average cost for inventories on hand and the specific identification method for any other inventory. The Company records inventory and any related obligation at the time title to the goods passes to the Company based on the specific terms of the transaction.

Property, Equipment, Depreciation and Amortization - Property and equipment are stated at cost. Depreciation and amortization are computed over the estimated useful lives of the assets using the straight-line method for financial reporting purposes as follows:

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| | Estimated useful lives (years) ----- |
|--|--|
| Warehouse, manufacturing, and office equipment | 3 to 10 |
| Leasehold improvements | 5 to 10 |
| Tooling costs | 5 to 10 |

The costs of repairs and maintenance are charged to operations when incurred. Major renewals or improvements are capitalized. When properties are sold or retired, the cost and related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is included in the results of operations.

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NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets and Organizational Costs - Intangible assets consist of goodwill from the Butler Products acquisition, engineering plans, designs, trademarks and patents. Amortization of non-goodwill intangibles is provided on a straight-line basis over five to fifteen year periods. The Company adopted SFAS No. 142 effective July 1, 2001. At June 30, 2005 and 2004, the Company had \$169,000 in intangible goodwill that is no longer being amortized as a result of this statement. During the fourth quarter of fiscal year 2005, the Company determined that the carrying amount of \$169,000 of net goodwill in the Houston subsidiary's books that resulted from the purchase of Butler Products was impaired. As a result, a goodwill impairment loss was recognized for the entire amount.

Foreign Currency Translation - There are significant operations in Mainland China and some operations in Brazil; 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 in which the functional currency is that of the foreign location. Income and expense amounts are translated at the average rates of exchange for the periods. These translation adjustments are reported separately as a component of stockholders' equity. Current year changes are included in comprehensive income.

Earnings Per Share - Basic earnings per share (EPS) is computed by dividing consolidated net income available to common shareholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if dilutive securities and other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the consolidated net income of the Company.

Fair Value of Financial Instruments - The fair value of financial instruments approximate their reported carrying amounts at June 30, 2005 and 2004 due to their relative short lives for current assets and liabilities and long-term liabilities are at interest rates comparable to current market rates. As of June 30, 2005 and 2004, the Company does not have any derivatives and has experienced no impact from adoption of SFAS No. 133.

Other Income - Other income consists of income received from sales of scrap

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metal or inventory, tooling fees from customers for custom orders, and gains and losses on the sales of assets.

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NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148 (SFAS 148), Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company anticipates no material impact on the consolidated financials from adoption of SFAS 148.

In May 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (SFAS 150). This Statement prescribes how an issuer classifies and measures certain financial instruments. Financial instruments within the scope of SFAS 150 are required to be classified as liabilities (or assets in some circumstances). Many of those instruments were previously classified as equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company July 1, 2003. There was no impact to the Company from adopting SFAS 150.

Inventory Costs

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB 43, Chapter 4" (SFAS 151), SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 requires that those items be recognized as current-period charges, rather than as a portion of the inventory cost. In addition, SFAS 151 requires that allocation of fixed production overhead to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect this statement to have a material impact on the Company's consolidated financial statements.

Tax

In December 2004, the FASB issued Staff Position No. FAS 109-1 "Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities provided by the American Jobs Creation Act of 2004" (FAS 109-1). The American Jobs Creation Act of 2004, enacted on October 22, 2004, provides for a deduction for certain qualified production activities. FAS 109-1 provides guidance for the application of FASB Statement No. 109, Accounting for Income Taxes, to the deduction for certain qualified production activities, and was effective immediately upon issuance. The adoption of FAS 109-1 did not have a significant impact on the Company's consolidated financial statements.

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In December 2004, the FASB issued Staff Position No. FAS 109-2 "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" (FAS 109-2). The American Jobs Creation Act of 2004 ("Jobs Act"), enacted on October 22, 2004, provides for a temporary 85% dividends-received deduction on certain foreign earnings repatriated to a U.S. taxpayer, provided certain criteria are met. FAS 109-2 provides accounting and disclosure guidance for the repatriation provision, and was effective immediately upon issuance. This did not have a significant impact on the Company's consolidated financial statements.

Share-Based Payment

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" (SFAS 123R). SFAS 123R is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB 25. Among other items, SFAS 123R eliminates the use of the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after June 15, 2005. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method.

The Company currently utilizes a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. While SFAS 123R permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. The Company will continue to utilize the Black-Scholes option pricing model to measure the fair value of its stock options.

The Company expects to adopt SFAS 123R effective July 1, 2005. The Company does not believe that this adoption will have a significant impact on the Company's results of operations.

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable at June 30 consisted of the following:

| | 2005 | 2004 |
|---------------------------------|-------------|-------------|
| | ----- | ----- |
| Accounts receivable, trade | \$2,642,562 | \$2,167,540 |
| Allowance for doubtful accounts | (60,812) | (125,148) |
| | ----- | ----- |
| | \$2,581,750 | \$2,042,392 |
| | ===== | ===== |

In May 2004, the Company entered into a factoring agreement with a financing company which temporarily replaced the Company's revolving line of credit. Under the factoring agreement, the financing company purchases qualifying accounts receivable without recourse subject to a residual payment of 15% of the receivable balance less factoring fees. The Company accounts for the factoring of the receivables as a sale of assets in accordance with Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. Total receivables sold under the factoring agreement were \$1,419,630 at June 30, 2004. Included in accounts receivable

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at June 30, 2004 are \$212,944 in residual payments due to the Company from the financing company. Subsequent to June 30, 2004, the factoring arrangement was replaced with a revolving line of credit.

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NOTE 3 INVENTORIES

Inventories at June 30 consisted of the following:

| | 2005 | 2004 |
|--------------------------------|-------------|-------------|
| | ----- | ----- |
| Raw materials | \$ 187,953 | \$ 299,755 |
| Work in process | 148,346 | 196,438 |
| Finished Goods | 3,070,280 | 3,646,008 |
| Reserve for obsolete inventory | (114,069) | (128,980) |
| | ----- | ----- |
| | \$3,292,510 | \$4,013,221 |
| | ===== | ===== |

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

| | 2005 | 2004 |
|--|--------------------------|--------------------------|
| | ----- | ----- |
| Warehouse, manufacturing, and office equipment | \$ 4,008,226 | \$ 3,842,786 |
| Land, buildings, and leasehold improvements | 638,787 | 634,209 |
| Tooling costs | 567,057 | 546,651 |
| | ----- | ----- |
| Accumulated depreciation and amortization | 5,214,070 (3,848,243) | 5,023,646 (3,500,816) |
| | ----- | ----- |
| | \$ 1,365,827 | \$ 1,522,830 |
| | ===== | ===== |

NOTE 5 OTHER ASSETS

Other assets at June 30 consisted of the following:

| | 2005 | 2004 |
|--------------------------|-----------|------------|
| | ----- | ----- |
| Intangible assets | \$333,258 | \$ 454,427 |
| Accumulated amortization | (58,230) | (124,671) |
| | ----- | ----- |
| | \$275,028 | \$ 329,756 |
| | ===== | ===== |

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NOTE 6 REVOLVING LINES OF CREDIT

The Company 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 \$33,276 and \$347,040 at June 30, 2005 and June 30, 2004, respectively. The line of credit matures November 30, 2005 and bears interest at 5.625%.

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 the assets of the Houston, Texas and Butler, Kentucky subsidiaries only and by 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 \$1,573,211 and \$0 at June 30, 2005 and June 30, 2004, respectively. The Company was not in compliance with certain covenants at June 30, 2005, and has not yet obtained a waiver.

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NOTE 7 NOTES PAYABLE

Notes payable at June 30 consisted of the following:

| | 2005 | 2004 |
|---|----------|-----------|
| | ----- | ----- |
| Notes payable to banks/finance companies, due in aggregate monthly installments of \$949 including interest ranging from 1.9% to 7.7%, maturing at various dates through 2006, secured by vehicles | \$ 1,798 | \$ 12,691 |
| Notes payable to equipment manufacturer, due in aggregate monthly installments of \$198 including interest, maturing at various dates through 2008 | 4,889 | 6,636 |
| Note payable to equipment manufacturer, secured by equipment Management has classified these balances and payments based upon management's plan to repay the debt over a 60 month period in monthly installments of \$5,800 including interest at 8% through 2007. | 121,638 | 178,683 |
| Note payable to PACCAR, Inc. due in minimum monthly payments of \$18,600 including principle and interest of approximately 11% commencing for a period of 5 years in May 2002, unsecured | 444,447 | 601,647 |
| Note payable to supplier of \$435,916 payable in a 10% premium paid on all future purchases from the supplier until the balance is paid in full. Classification of current and long term portions are based upon Management's best estimate of future repayments | 269,674 | 347,902 |
| Note payable to foreign third party, principle due in one payment January 27, 2006, interest at 0.54% due monthly and secured by certain machinery and equipment of Shanghai Omni Gear | 362,443 | 362,443 |

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Junior Subordinated Notes to Butler Products Corporation former owners at 8% annual interest with variable payments based upon margins earned on certain Butler product sales and from proceeds of any Butler assets sold in the future, if any. The former owners have the right to further amend and accelerate the repayment terms if repayment of principle is not deemed adequate by the former owners under the above repayment plan. Management has classified the balance as current

143,275 181,974

Notes payable to banks/finance companies, due in aggregate monthly installments of \$777 including interest, maturing in 2008

18,014 --

Short term note payable converted from an accounts payable to a supplier payable in less than one year, at 0% interest, unsecured

87,203 --

Inventory note payable of \$850,000 at 7% due in monthly payments of \$30,000 with the remaining balance due August 31, 2004. The note payable is subject to certain financial and reporting covenants and secured by the assets of the Company. The Company was in not in compliance with its covenants at June 30, 2004. The note was repaid in August 2004 as further discussed in Note 18 with a new revolving line of credit

-- 666,595

----- 1,453,380 2,358,570

Less current portion

804,034 1,344,134

Long term portion

\$ 649,347 \$1,014,436

=====

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NOTE 7 NOTES PAYABLE (CONTINUED)

Future maturities of long-term debt by fiscal year are as follows:

2006 804,034
 2007 360,115
 2008 246,298
 2009 42,934

 \$1,453,380
 =====

NOTE 8 COMMON STOCK

The Company has authorized 50,000,000 shares of common stock with a par value of \$.004995 per share. At June 30, 2005, the Company had issued 1,227,079 shares with all shares outstanding. The Company has never paid cash dividends on its Common Stock. In October 2004, The Company issued 55,267 shares of stock in exchange for intangible assets and professional services. As a result of net losses in the prior fiscal years, the Company has a cumulative retained deficit of \$2,669,161 as of June 30, 2005; accordingly, the Company may be prohibited by legal restrictions on capital from paying cash dividends for the foreseeable future. In addition, the Company's revolving line of credit facility prohibits the payment of dividends.

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NOTE 9 WARRANTS TO PURCHASE COMMON STOCK

The Company has Class B Warrants that entitle the holder to purchase shares of common stock as follows:

| | Expiration Date ----- | Price per Share ----- | Number of Warrants Issued ----- |
|-------------------------------|--------------------------|-----------------------------|--|
| Class B Series (PACCAR. Inc.) | July 1st, 2009 | 6.00 | 166,667 |

On September 23, 1999, the Company entered into a \$1,000,000 loan agreement with PACCAR Inc. (PACCAR). Under the terms of the loan, PACCAR received 166,667 warrants to purchase shares of the Company's common stock. The warrants may be exercised through July 2009 at \$6.00 per share. The warrants to purchase stock may be reduced to 116,667 upon the occurrence of certain subsequent events.

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NOTE 10 STOCK OPTION PLANS

The Company maintains a Non-Qualified Stock Option Plan (the "NQSOP") and a 1996 Incentive Stock Option Plan (the "1996 ISOP"). The NQSOP covers 200,000 shares of Common Stock and the 1996 ISOP covers 300,000 shares of Common Stock. The purpose of the NQSOP and 1996 ISOP, under the discretion of the Company's Board of Directors, is to offer eligible employees of the Company and its subsidiaries an opportunity to acquire or increase their proprietary interests in the Company and provide additional incentive to contribute to its performance and growth.

The Board of Directors has reserved 500,000 shares under the Plans.

| | Total # of Shares ----- | \$12.00 Options ----- | \$3.00 Options ----- | \$4.875 Options ----- | \$6.75 Options ----- | \$3.5 Options ----- |
|---|-------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|---------------------------|
| Stock Option Summary ----- | | | | | | |
| Options Outstanding at June 30, 2003 | 345,667 | 23,333 | 297,333 | 10,000 | 5,000 | 10,000 |
| Options Granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Options Canceled | 0 | 0 | 0 | 0 | 0 | 0 |
| Options Outstanding at June 30, 2004 | 345,667 | 23,333 | 297,333 | 10,000 | 5,000 | 10,000 |
| Options Granted | 0 | 0 | 0 | 0 | 0 | 0 |
| Options Canceled | 0 | 23,333 | 0 | 0 | 0 | 0 |
| Options Outstanding at June 30, 2005 | 322,334 | 0 | 297,333 | 10,000 | 5,000 | 10,000 |
| Exercisable at June 30, 2005 | 345,667 | 23,333 | 297,333 | 10,000 | 5,000 | 10,000 |
| Exercisable at June 30, 2004 | 322,334 | 0 | 297,333 | 10,000 | 5,000 | 10,000 |
| Available for future grant at June 30, 2005 | 177,666 | | | | | |
| ----- | | | | | | |
| Weighted-average remaining contractual life in years | 1.7 | 0 | 1.5 | 4 | 4 | 4 |
| ----- | | | | | | |

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SFAS No. 123 and 148, "Accounting for Stock-Based Compensation," encourages, but does not require, companies to record compensation costs for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, compensation costs for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. No options were granted in the fiscal years ended June 30, 2005 and 2004 and there was no effect to the income statement under SFAS 123 and 148.

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NOTE 11 EARNINGS PER SHARE

The following sets forth the computation of basic and diluted earnings per share at June 30, 2005 and 2004.

| | 2005 | 2004 |
|--|--------------|------------|
| | ----- | ----- |
| Numerator | | |
| Net Income (loss) | \$ (639,020) | \$ 282,301 |
| | ===== | ===== |
| Denominator | | |
| Denominator for basic earnings per share - weighted average common shares outstanding | 1,212,392 | 1,171,812 |
| Effect of dilutive securities: | | |
| Conversion of dilutive stock options | -- | -- |
| | ----- | ----- |
| Denominator for dilutive earnings per share - adjusted weighted average shares and assumed conversion | 1,212,392 | 1,171,812 |
| | ===== | ===== |
| Basic Earnings Per Share (Loss) | \$ (0.53) | \$ 0.24 |
| | ===== | ===== |
| Diluted Net Earnings Per Share (Loss) | \$ (0.53) | \$ 0.24 |
| | ===== | ===== |

Stock options at June 30, 2005 and 2004 are antidilutive as all exercise prices are currently higher than the market price.

NOTE 12 INCOME TAXES

Income tax (expense) benefit is comprised of the following:

| | 2005 | 2004 |
|----------------------|------|------|
| | ---- | ---- |
| Current state | -- | -- |
| Deferred - Current | -- | -- |
| Deferred - Long-Term | -- | -- |
| | --- | --- |
| | -- | -- |

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=== ===

Deferred income taxes result from timing differences in reporting income and expenses for financial statement and income tax purposes. The primary sources of deferred income taxes result from: (1) the use of different methods of depreciation for income tax and financial statement purposes, (2) the uniform capitalization of inventory for income tax purposes, (3) inventory obsolescence reserves, (4) direct write-off of bad debts for income tax purposes and (5) foreign losses.

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NOTE 12 INCOME TAXES (continued)

The components of the Company's deferred tax assets and liabilities at June 30 are as follows:

| | 2005 | 2004 |
|--|-----------|-----------|
| | ----- | ----- |
| Current deferred tax assets | | |
| Accounts receivable | \$ 54,000 | \$ 43,000 |
| Inventory | 58,000 | 63,000 |
| Domestic net operating loss carry-forwards | 225,000 | 164,000 |
| Foreign subsidiary net operating loss carry-forwards | 611,000 | 517,000 |
| | ----- | ----- |
| Deferred tax assets | 948,000 | 787,000 |
| Non-current deferred tax liabilities | | |
| Depreciation | (136,000) | (128,000) |
| | ----- | ----- |
| Net deferred income tax assets | 812,000 | 659,000 |
| Valuation allowance | (812,000) | (659,000) |
| | ----- | ----- |
| Net deferred income taxes | -- | -- |
| | ===== | ===== |

The valuation allowance increased \$153,000 and decreased \$67,000 during 2005 and 2004, respectively due to losses. At June 30, 2005 the Company had approximately \$662,000 of domestic net operating losses, which expire by 2023.

The Company has not provided for income taxes on the undistributed earnings of its foreign subsidiaries because it intends to reinvest these earnings in the continuing operations of these subsidiaries. In determining the value of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversals of deferred tax assets and liabilities, projected future taxable income, if any, and the tax planning strategies in determining this value. Management does not believe it is more likely than not that the Company will realize the benefits of its deferred tax assets, net of existing valuation allowances at June 30, 2005. The cumulative amount of undistributed losses of its foreign subsidiaries is approximately \$1,795,000 at June 30, 2005.

The difference between the effective rate of income tax expense at June 30, 2005 and 2004 and the amounts which would be determined by applying the

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statutory U.S. income tax rate of 34% to income before income tax expense, are explained below according to the tax implications of various items of income or expense.

| | 2005 ----- | 2004 ----- |
|--|---------------|---------------|
| Provision for income tax benefit/(expense) at U.S. statutory rates | 217,267 | \$(64,407) |
| Change in income tax benefit/(expense) resulting from: | | |
| Non-deductible expense | (3,200) | (3,600) |
| Non-deductible Goodwill writeoff | (58,000) | -- |
| Other | (3,067) | 1,007 |
| Change in valuation reserve | (153,000) | 67,000 |
| | ----- | ----- |
| Income tax benefit (expense) | -- | -- |
| | ===== | ===== |

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NOTE 13 COMMITMENTS AND CONTINGENCIES

Operating Leases - The Company leases equipment and office, warehouse and manufacturing space in Houston, Texas and Shanghai, China. The Houston lease is \$8,500 per month through 2005. The Shanghai lease began in 1996 and has a thirty-year term at approximately \$10,000 per month. At June 30, 2004, the future minimum rental payments required under operating leases were approximately:

| | | |
|------------|----|-------------|
| 2006 | \$ | 292,857 |
| 2007 | | 134,289 |
| 2008 | | 134,289 |
| 2009 | | 132,529 |
| 2010 | | 129,009 |
| Thereafter | | 1,570,617 |
| | | ----- |
| Total | | \$2,393,591 |
| | | ===== |

Rent expense was approximately \$274,000 and \$257,000 during the years ended June 30, 2005 and 2004, respectively.

Insurance Coverage - The Company is self-insured against product liability and completed operations. This situation, while not unique to the Company or its industry, may subject the Company to some future liability. The Company maintains in force and effect, product liability insurance for the trailer and implement segment, with coverage up to \$1,000,000 per occurrence and in aggregate, as well as completed operations insurance held by Butler Products Corporation at the time of acquisition.

Employment - Seventy-six percent of one of the subsidiary's employees, (specifically, nineteen of twenty-five Butler employees) are unionized and are covered by a collective bargaining agreement. The collective bargaining agreement expires within one year.

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Employee Benefits - The Company maintains a 401(k) plan, which covers substantially all employees. Contributions by the Company are discretionary. During the years ended June 30, 2005 and 2004, the Company made no contributions to the plan.

Litigation - The Company continues to aggressively protect its trademarks. From time to time the Company files suit to enforce its trademark and other intellectual property. Historically, the Company has been successful in preventing others from using Omni's trademarks or trade dress or in seeking other relief.

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NOTE 14 MAJOR CUSTOMERS AND SUPPLIERS

The Company and its subsidiaries had consolidated sales in its power transmission component segment of \$5,106,032 and \$3,954,991 to one customer representing 24% and 21% of total consolidated sales in fiscal 2005 and 2004, respectively.

Approximately 61% of the Company's inventory purchases were from two companies in China in 2005 and 2004.

NOTE 15 SUPPLEMENTAL CASH FLOW INFORMATION AND NONCASH INVESTING AND FINANCING ACTIVITIES

The Company converted \$87,203 in accounts payable into notes payable as mentioned in note 7. The company also issued treasury stock for the acquisition of patents and services.

Due to net operating loss carryforwards, the Company was not required to pay any income taxes in 2005 and 2004.

The Company paid interest of \$435,897 and \$438,616 during the fiscal years ended June 30, 2005 and 2004, respectively.

NOTE 16 SEGMENT INFORMATION

The Company identifies its competition and business segments by the power transmission and trailer and implement components.

Selected financial information by business segment with respect to these activities for the years ended June 30 is as follows:

| | 2005 | 2004 |
|----------------------------------|--------------|--------------|
| | ----- | ----- |
| Net Sales | | |
| Power Transmission Components | \$17,780,531 | \$15,961,652 |
| Trailer and Implement Components | 3,226,507 | 3,190,287 |
| | ----- | ----- |
| Total Omni U.S.A., Inc. | \$21,007,038 | \$19,151,939 |
| | ===== | ===== |
| Income (Loss) from Operations | | |
| Power Transmission Components | \$ 404,470 | \$ 901,049 |
| Trailer and Implement Components | (431,983) | (186,606) |
| | ----- | ----- |
| Total Omni U.S.A., Inc. | \$ (47,513) | \$ 714,443 |

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| | | |
|----------------------------------|--------------|------------|
| | ===== | ===== |
| Net Income (Loss) | | |
| Power Transmission Components | \$ (50,124) | \$ 571,980 |
| Trailer and Implement Components | (588,896) | (289,679) |
| | ----- | ----- |
| Total Omni U.S.A., Inc. | \$ (639,020) | \$ 282,301 |
| | ===== | ===== |

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NOTE 16 SEGMENT INFORMATION (continued)

| | | |
|----------------------------------|--------------|--------------|
| Identifiable Assets | | |
| Power Transmission Components | \$ 6,446,270 | \$ 5,819,116 |
| Trailer and Implement Components | 1,860,795 | 2,846,886 |
| | ----- | ----- |
| Total Omni U.S.A., Inc. | \$ 8,307,065 | \$ 8,666,002 |
| | ===== | ===== |
| Revenues | | |
| Domestic Customers | \$18,779,048 | \$16,823,270 |
| Foreign Customers | 2,227,990 | 2,328,669 |
| | ----- | ----- |
| Total Revenues | \$21,007,038 | \$19,151,939 |
| | ===== | ===== |
| Property and Equipment (net) | | |
| Domestic | \$ 427,765 | \$ 469,990 |
| Foreign | 938,062 | 1,052,840 |
| | ----- | ----- |
| Total Property and Equipment | \$ 1,365,827 | \$ 1,522,830 |
| | ===== | ===== |
| Depreciation and amortization | | |
| Power Transmission Components | \$ 267,186 | \$ 237,070 |
| Trailer and Implement Components | 95,241 | 107,910 |
| | ----- | ----- |
| Total Omni U.S.A., Inc. | \$ 362,427 | \$ 344,980 |
| | ===== | ===== |
| Interest Expense | | |
| Power Transmission Components | \$ 280,909 | \$ 333,370 |
| Trailer and Implement Components | 154,988 | 105,246 |
| | ----- | ----- |
| Total Omni U.S.A., Inc. | \$ 435,897 | \$ 438,616 |
| | ===== | ===== |

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NOTE 17 FOURTH QUARTER ADJUSTMENTS (UNAUDITED)

During the fourth quarter of fiscal year 2004, the Company recorded adjustments of approximately \$80,000 to write down inventory in its Trailer Implement Components business segment as a result of its consolidation of facilities to Butler, Kentucky during the second quarter of fiscal year 2004, the adjustments were the result of determinations that certain transferred inventory from discontinued operations retained no value.

During the fourth quarter of fiscal year 2005, the Company determined that

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the carrying amount of \$169,000 of net goodwill in the Houston subsidiary's books that resulted from the purchase of Butler Products was impaired. As a result, a goodwill impairment loss was recognized for the entire amount. Additionally, Butler inventory was reduced by approximately 120,000 as determined by the year end physical count.

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ITEM 8. CHANGES IN AND DISAGREEMENT WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF EXCHANGE ACT

The directors, executive officers, promoters and control persons of the Company are set forth below. All directors hold office for a term of one year or until their successors are duly elected and qualified. Each executive officer of the Company is appointed by the Board of Directors at each annual meeting and serves until a successor is duly elected and qualified.

| Name | Age | Position |
|-------------------|-----|---|
| ---- | --- | ----- |
| Jeffrey K. Daniel | 44 | President, Chief Executive Officer and Director |
| Craig L. Daniel | 45 | Vice President-Manufacturing and Director |
| Kevin Guan | 47 | Director |
| Didi Duan | 58 | Director |

Jeffrey K. Daniel has been an employee of Omni since 1985 and is currently the Chief Executive Officer and President of the Company. He has a Bachelors degree in Business Administration from the University of Colorado. He was Vice President from 1987 until May 1994, when he was elected Chief Executive Officer and President. Jeffrey K. Daniel is the brother of Craig L. Daniel. Jeffrey K. Daniel has served as a director of the Company since January 1988.

Craig L. Daniel has been a full time employee of Omni since April, 1989, and is currently Vice President-Manufacturing for the Company, Managing Director of Omni Resources, Ltd. and General Manager of Shanghai Omni Gear Co., Ltd. Craig L. Daniel is the brother of Jeffrey K. Daniel. Craig L. Daniel has served as a director of the Company since December 1993.

Kevin Guan is currently the Managing Director of SIIC Real Estate Co., a commercial real estate developer of projects in Hong Kong and China, (a subsidiary of Shanghai Industrial Investment Corp.). From February 1993 through February 1995, Mr. Guan was the General Manager, Shanghai Wai Gao Qiao Development Corp, in the PuDong development zone of Shanghai. Mr. Guan is a graduate of Shanghai Jiao Tong University, and received his MBA from Shanghai University.

Didi Duan is currently the Chief Financial Officer and Director of Jiao Tong University's Ang Li Science and Technology Co., Ltd., a specialty pharmaceutical processor in the Chinese and East Asian markets. From January 1986 to February 1997, Ms. Duan was the Chief Financial Officer of Dong Feng Automotive Truck manufacturing Division, vertically manufacturing 15-40 ton trucks for the

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Chinese market. Ms. Duan graduated from Wuhan University in Hubei, and is an accountant in Shanghai, under the accounting rules in China.

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ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid to the Company's executive officers in each of the three most recent fiscal years:

| Name and Position ----- | Annual Compensation | | | | Long Term Compensation | | |
|---|---------------------|-----------|-------|------------------------------|-------------------------------|--|---------|
| | Year | Salary | Bonus | Other Annual Compensation | Awards | | Payouts |
| | | | | | Restricted Stock Awards | Securities Underlying Options/SARs | |
| ----- | ---- | ----- | ----- | ----- | ----- | ----- | ----- |
| Jeffrey K. Daniel President & CEO | 2003 | \$110,000 | -- | -- | -- | -- | -- |
| | 2004 | 110,000 | -- | -- | -- | -- | -- |
| | 2005 | 110,000 | -- | -- | -- | -- | -- |
| Craig L. Daniel Vice President- Manufacturing | 2003 | 85,000 | -- | -- | -- | -- | -- |
| | 2004 | 85,000 | -- | -- | -- | -- | -- |
| | 2005 | 85,000 | -- | -- | -- | -- | -- |

No other executive officer's salary or bonus exceeded \$100,000 for the three most recent fiscal years ended June 30, 2005.

None of the executive officers are employed by the Company pursuant to any employment contract or other agreement, and there are no arrangements or understandings for the payment of bonuses or other payments upon a termination of employment, or otherwise.

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STOCK OPTION PLANS AND STOCK OPTIONS

The Company maintains a 1994 Non-Qualified Stock Option Plan (the "1994 NQSOP") and a 1996 Incentive Stock Option Plan (the "1996 ISOP"). The NQSOP covers 200,000 shares of Common Stock and the 1996 ISOP covers 300,000 shares of Common Stock. The purpose of the NQSOP and 1996 ISOP, under the discretion of the Company's Board of Directors, is to offer eligible employees of the Company and its subsidiaries an opportunity to acquire or increase their proprietary interests in the Company and provide additional incentive to contribute to its performance and growth.

On June 6, 1997, the Board, upon recommendation from the Compensation Committee, repriced all options granted and existing to current Company employees under the 1996 ISOP and NQSOP from \$12.00 per share to \$3.00 per share. The repriced options vest 50% twelve (12) months from date of grant and 50% twenty-four (24) months from date of grant.

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On June 6, 1997, the Board, upon recommendation of the Compensation Committee, granted options to purchase 45,333 shares of Common Stock at \$3.00 per share to each Jeffrey K. Daniel and Craig L Daniel, and granted options to purchase 22,667 shares of Common Stock at \$3.00 per share to Michael A. Zahorik, all such options to vest three (3) years from date of grant.

On January 25, 1999, the Board, under the NQSOP, granted 3,333 options to purchase Company Common Stock at \$4.875 per share to James L. Davis, John F. Lillicrop, and W. Wayne Patterson. All director options were immediately vested.

On January 3, 2000, the Board, under the NQSOP, granted 3,333 options to purchase Company Common Stock at \$3.564 per share to James L. Davis, John F. Lillicrop, and W. Wayne Patterson. All director options were immediately vested.

On March 8, 1999, under the 1996 ISOP, David M. Sallean was granted options to purchase 10,000 shares of Common Stock at an exercise price of \$3.564, vesting 100% three (3) years from date of grant.

On February 24, 2000, under the 1996 ISOP, David M. Sallean was granted options to purchase 10,000 shares of Common Stock at an exercise price of \$3.1875, vesting 100% three (3) years from date of grant.

Effective October 1, 2001, Michael A. Zahorik was terminated as an employee of Omni USA, Inc. By operation of the ISOP Agreement, Mr. Zahorik's options were not exercised, and accordingly all 46,000 options were cancelled.

Effective October 24, 2001, David M. Sallean was terminated as an employee of Omni USA, Inc. By operation of the ISOP Agreement, Mr. Sallean's options were not exercised, and accordingly all 20,000 options were cancelled.

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The following table provides repricing information for options held by the Company's five most highly compensated executive officers. The repricing was implemented in 1997 on the recommendation of the Compensation Committee to conform the options to prevailing market prices and provide an incentive for which the options were designed.

Ten-Year Options/SAR Repricings

| Name | Date | Number of Securities Underlying Options/SARs Repriced or Amended | Market Price of Stock at Time of Repricing or Amendment | Exercise Price of Stock at Time of Repricing or Amendment | New Exercise Price | Length of Origin of Option Term Remaining Date of Repricing |
|-------------------|--------|--|---|---|--------------------|---|
| Jeffrey K. Daniel | 6/6/97 | 53,334 | \$2.25 | \$12.00 | \$3.00 | 9 years |
| Craig L. Daniel | 6/6/97 | 53,334 | \$2.25 | \$12.00 | \$3.00 | 9 years |

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Under the 1996 ISOP, options for 318,334 shares had been granted as of June 30, 2004. Under the 1994 NQSOP, options for 93,333 shares had been granted as of June 30, 2004. The following table shows how the 1996 ISOP options are

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distributed to groups within the Company based on the dollar value of exercisable options in effect during fiscal year 2004 based on the closing price of Common Stock at June 30, 2004 of :

| Name and Position | 1994 NQSOP and 1996 ISOP | |
|---|-----------------------------------|---|
| | Dollar Value / Shares Exercisable | Total Number of Shares Represented by Options |
| Jeffrey K. Daniel President and CEO | \$ 0/98,667 | 98,667 |
| Craig L. Daniel Vice President-Manufacturing | \$ 0/98,667 | 98,667 |
| Executive Officer Group | \$0/197,334 | 197,334 |
| Non-Executive Officer Employee Group | \$ 0/71,666 | 71,666 |
| Total | \$0/269,000 | 269,000 |

Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

| Name | Shares Acquired on Exercise | Value Realized | Number of Unexercised Options/SARs at FY-End (1) Exercisable/Unexercisable | Value of Unexercised in-the-money Options/SARs at FY-End Exercisable/Unexercisable |
|---|-----------------------------|----------------|--|--|
| Jeffrey K. Daniel President & CEO | N/A | N/A | 98,667 ----- 98,667/0 | \$ 0 ----- \$0/\$0 |
| Craig L. Daniel Vice President- Manufacturing | N/A | N/A | 98,667 ----- 98,667/0 | \$ 0 ----- \$0/\$0 |

N/A Not applicable. No options were exercised during the fiscal year ended June 30, 2004.

(1) Indicates number of options exercisable and unexercisable as of June 30, 2004.

(2) Based upon closing price of Common stock at June 30, 2004 of \$1.01.

OTHER COMPENSATION

The Company has paid no bonuses to its executive officers. The Company has a group medical plan which provides medical and hospital benefits and term life insurance to its officers and employees, at no cost. Jeffrey K. Daniel and Craig L. Daniel are not compensated as directors.

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ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

EQUITY COMPENSATION

The following table sets forth information relating to compensation plans under which equity securities of the Company are authorized for issuance:

| | Number of securities to be issued upon exercise of outstanding option, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) |
|--|--|--|
| | ----- | ----- |
| Equity compensation plans approved by security holders | 345,667 | \$3.63 |
| Equity compensation plans not approved by security holders | -- | -- |
| | ----- | ----- |
| Total | 345,667 ===== | \$3.63 ===== |

CAPITALIZATION

The Company's currently authorized equity securities are as follows: (i) 50,000,000 shares of Common Stock, par value \$.004995 per share (see Note 2), (ii) 454,258 Class B Common Stock Purchase Warrants ("Class B Warrants"). As of September 30, 2005, the Company had outstanding 1,227,079 shares of Common Stock, and Class B Warrants to purchase 166,667 shares of Common Stock.

Class B Warrants. There are 166,667 Class B Warrants to purchase Common Stock. The Class B Series 1 Warrants, which were exercisable by the holder thereof at any time between 90 days after issuance and March 15, 2001, at \$6.00 per share, expired on March 15, 2001. None of these Class B Warrants were exercised. The 166,667 Class B Series 2 Warrants issued to PACCAR, Inc. may be exercised at any time and expire July 1, 2009 (see Note 10 in the footnotes to the financial statements).

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of the close of business on June 30, 2005, by each person who is known to the Company to be a beneficial owner of 5% or more of the Common Stock, by each current and Nominee director, and by all directors and executive officers as a group.

| Name and Address of Beneficial Owner | Amount and Nature Of Beneficial Ownership | Percent of Class(1) |
|--------------------------------------|---|---------------------|
|--------------------------------------|---|---------------------|

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| | | |
|--|---------|-------|
| Edward L. Daniel (3) | 175,689 | 14.3% |
| Joan J. Daniel (3) | 175,689 | 14.3% |
| PACCAR, Inc. (6) | 166,667 | 13.6% |
| Craig L. Daniel (2)(5) | 134,837 | 10.9% |
| Jeffrey K. Daniel (2)(4) | 116,561 | 9.5% |
| Executive Officers and Directors as a Group | 251,398 | 20.5% |

- (1) Based upon 1,227,079 shares of Common Stock outstanding as of June 30, 2005.
- (2) The address for all officers is 7502 Mesa Road, Houston, Texas 77028.
- (3) Includes 125,000 shares each subject to certain conditions and limitations set forth in the Registration Rights Agreement (see Exhibit 10.11). The address for such beneficial owner is 2476 Bolsover, #626, Houston, Texas 77005.
- (4) Includes 98,667 shares purchasable under options at \$3.00 per share and 1,255 shares held in street name and 257 shares held of record by the Jeffrey K. Daniel Individual Retirement Account, a self-directed IRA and 4,129 shares purchased through the Company's 401(k) plan.
- (5) Includes 98,667 shares purchasable under options exercisable at \$3.00 per share and 2,267 shares held of record by the Craig L. Daniel Individual Retirement Account, a self-directed IRA.
- (6) Includes 166,667 shares purchasable under Class B Warrants exercisable at \$6.00 per share and expire July 1, 2009. The address of such beneficial owner is 777 106th Avenue NE, Bellevue, WA 98004.

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ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

ITEM 13. 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 its management, including the Chief Executive Officer and Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Controller concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective.

CHANGES IN INTERNAL CONTROLS.

Subsequent to the date of the most recent 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 with regard to significant deficiencies and material weaknesses based on such evaluation.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional audit services rendered by Harper & Pearson Company for the years ended June 30, 2005 and 2004.

| | 2005 | 2004 |
|------------------------|--------------|--------------|
| | ----- | ----- |
| Audit Fees: (1) | \$116,568.43 | \$101,892.85 |
| Audit-Related Fees (2) | 0 | 0 |
| Tax Fees: (3) | 9,070 | 9,300.00 |
| All Other Fees: (4) | 0 | 0 |
| | ----- | ----- |
| Total | \$125,638.43 | \$111,192.85 |
| | ===== | ===== |

- (1) Audit Fees: Fees for professional services performed by Harper & Pearson Company for the audit of our annual financial statements and review of financial statements included in our 10-QSB filings, and services that are normally provided in connection with statutory and regulatory filings.
- (2) Audit-Related Fees: Harper & Pearson Company did not provide any audit-related services.
- (3) Tax Fees: Fees for professional services performed by Harper & Pearson Company with respect to tax compliance, such as preparation and filing of original and amended returns for us and our consolidated subsidiaries, refund claims, payment planning, tax audit assistance and tax work stemming from "Audit-Related" items.
- (4) All Other Fees: Harper & Pearson Company did not provide other permissible work for us that does not meet the above category descriptions.

PRE-APPROVAL POLICY

Our Board of Directors is responsible for approving all Audit, Audit-Related, Tax and Other Non-Audit Services. The Board of Directors approves all auditing services and permitted non-audit services, including all fees and terms to be performed for us by our independent auditor at the beginning of the fiscal year.

Non-audit services are reviewed and pre-approved by project at the beginning of the fiscal year. Any additional non-audit services contemplated by the company after the beginning of the fiscal year are submitted to the Audit Committee chairman for pre-approval prior to engaging the independent auditor for such services. Such interim pre-approvals are reviewed with the full Audit Committee at its next meeting for ratification.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE COMPANY HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

OMNI U.S.A., INC.

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BY: /s/ JEFFREY K. DANIEL

JEFFREY K. DANIEL
CHIEF EXECUTIVE OFFICER
AND PRESIDENT

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1934, THIS REPORT HAS BEEN SIGNED BY THE FOLLOWING PERSONS ON BEHALF OF THE COMPANY AND IN THE CAPACITIES AND ON THE DATE INDICATED.

| SIGNATURE ----- | TITLE ----- | DATE ---- |
|---|-------------------------------------|------------------|
| /s/ JEFFREY K. DANIEL ----- JEFFREY K. DANIEL | CHIEF EXECUTIVE OFFICER & PRESIDENT | OCTOBER 12, 2005 |

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INDEX OF EXHIBITS

| Exhibit No. ----- | Name of Exhibit ----- |
|----------------------|---|
| 3.1 | Amended and Restated Articles of the Company, as amended November 30, 1994. Incorporated by reference from the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed with the Commission on December 22, 1994. |
| 3.2 | Certificate of Designation of Series A Redeemable Convertible Preferred Stock. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994. |
| 3.3 | Certificate of Designation of Series B Convertible and Series C Convertible Preferred Stock. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994. |
| 3.4 | By-laws of the Company. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994. |
| 4.1 | Certificate of Designation of Series A Redeemable Convertible Preferred Stock. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994. |
| 4.2 | Certificate of Designation of Series B Convertible and Series C Convertible Preferred Stock. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994. |

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- 4.3 Form of Class A Common Stock Purchase Warrant. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 4.4 Form of Class B Common Stock Purchase Warrant. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 4.5 Equity Contract Note dated as of June 30, 1994 issued to Edward L. Daniel in the original principal amount of \$918,304. Incorporated by reference from the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed with the Commission on December 22, 1994.
- 4.6 Equity Contract Note dated as of November 29, 1991 issued to Edward L. Daniel in the principal amount of \$1,000,000. Incorporated by reference from the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed with the Commission on January 30, 1995.
- 4.7 Corrected Registered Equity Contract Note dated as of June 30, 1993 issued to Edward L. Daniel in the original principal amount of \$1,968,304.02. Incorporated by reference from the Company's Amendment No. 2 to Registration Statement on Form SB-2 filed with the Commission on January 30, 1995.
- 10.1 Settlement Agreement dated as of June 30, 1994 by and among the Company, Edward L. Daniel, Joan J. Daniel, and Daniel Development Corporation. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 10.2 1994 Qualified Stock Option Plan. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 10.3 1994 Non-Qualified Stock Option Plan. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 10.4 Stock Option Grant to Jeffrey Daniel. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
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- 10.5 Stock Option Grant to Craig Daniel. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 10.6 Letter Agreement dated November 1, 1994 between the Company, Edward L. Daniel, and LaPlante Compressor Limited. Incorporated by reference from the Company's Amendment No. 1 to Registration Statement on Form SB-2 filed with the Commission on December 22, 1994.
- 10.7 Articles of Association for Omni Gear Shanghai Ltd. dated December 21, 1994 between the Company and Shanghai Shengang Metallurgical

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Industry Company. Incorporated by reference from the Company's Amendment No. 6 to Registration Statement on Form SB-2 filed with the Commission on April 17, 1995.

- 10.8 Cooperative Joint Venture Contract for the Formation and Operation of Shanghai Omni Gear Co., Ltd. dated December 12, 1994 between Omni Resources (H.G.) Limited and Shanghai Shengang Metallurgical Industry Company. Incorporated by reference from the Company's Amendment No. 6 to Registration Statement on Form SB-2 filed with the Commission on April 17, 1995.
- 10.9 Butler Products Corporation Share Purchase Agreement dated October 1, 1996, together with exhibits. Incorporated by reference from the Company's Form 8-K filed on October 18, 1996 and from the Company's Amended Form 8-K filed on December 11, 1996.
- 10.10 Mutual Release and Settlement Agreement between Edward L. Daniel, Joan J. Daniel and their affiliates effective June 30, 1997. Incorporated by reference from the Company's Form 8-K filed on September 10, 1997.
- 10.11 Registration Rights Agreement between Edward L. Daniel, Joan J. Daniel and their affiliates effective June 30, 1997. Incorporated by reference from the Company's Form 8-K filed on September 10, 1997.
- 10.12 Amendment to Lease Agreement dated August 1, 1997. Incorporated by reference from the Company's Form 8-K filed on September 10, 1997.
- 10.13 Assignment Agreement between Edward L. Daniel, Joan J. Daniel and their affiliates dated August 15, 1997. Incorporated by reference from the Company's Form 8-K filed on September 10, 1997.
- 21.1 Subsidiaries of the Registrant. Incorporated by reference from the Company's Registration Statement on Form SB-2 filed with the Commission on October 12, 1994.
- 31.1 Certification of Jeffrey Daniel, CEO and Chairman of the Board pursuant to Rule 13a-14 (a) 15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Craig Daniel, Vice-President pursuant to Rule 13a-14 (a) 15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Jeffrey Daniel, CEO and Chairman of the Board pursuant to 18 U.S.C. Section 1350, as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Craig Daniel, Vice-President pursuant to 18 U.S.C. Section 1350, as adapted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Press Release dated September 10, 1997. Incorporated by reference from the Company's Form 8-K filed on September 10, 1997.