

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

OMNI MEDICAL HOLDINGS INC
Form 10QSB
February 14, 2006

U. S. Securities and Exchange Commission
Washington, D. C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2005

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 000-26177

OMNI MEDICAL HOLDINGS, INC.

(Name of Small Business Issuer in its Charter)

UTAH

87-0425275

(State or Other Jurisdiction of
incorporation or organization)

(I.R.S. Employer I.D. No.)

1257 Lake Plaza Drive, Suite 219
Colorado Springs, Colorado 80906

(Address of Principal Executive Offices)

Registrant's Telephone Number: (719) 884-2131

N/A

(Former name, former address and former fiscal year, if changed since last
report)

Check whether the Registrant (1) filed all reports required to be filed by
Sections 13 or 15(d) of the Exchange Act during the past 12 months (or for
such shorter period that the registrant was required to file such reports),
and (2) has been subject to such filing requirements for the past 90 days.

(1) Yes No (2) Yes No
--- --- --- ---

Indicate by check mark whether the Registrant is a shell company (as defined
by Rule 12b-2 of the Exchange Act) Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Not applicable.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

December 31, 2005 - 12,912,069 shares

Transitional small business disclosure format (check one): Yes No

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Financial Statements of the Registrant required to be filed with this 10-QSB Quarterly Report were prepared by management, and commence on the following page, together with Related Notes. In the opinion of management, the Financial Statements fairly present the financial condition of the Registrant.

Omni Medical Holdings, Inc.

Condensed Consolidated Financial Statements

December 31, 2005

Omni Medical Holdings, Inc.

Unaudited Condensed Consolidated Balance Sheet

December 31, 2005

ASSETS

Current assets:

Cash and cash equivalents	\$ -
Accounts receivable, net	2,081,265
Short-term investments, at fair value	113,453
Employee advances	5,317
Prepaid expenses	86,914

Total current assets 2,286,949

Property & equipment, net 1,370,526

Other assets:

Deferred financing costs	25,000
Goodwill	3,456,945
Intangible assets, net	1,904,647

Total other assets 5,386,592

TOTAL ASSETS \$ 9,044,067

See notes to condensed consolidated financial statements

F-2

Omni Medical Holdings, Inc.

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Unaudited Condensed Consolidated Balance Sheet [continued]
December 31, 2005

LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	\$ 838,625
Bank overdraft	10,128
Accrued expenses	2,744,997
Line of credit	117,283
Current portion notes payable	2,921,074

Total current liabilities	6,632,107
Convertible debt	1,830,672
Senior note payable-Note 6	133,333
Derivative liability on warrants-Note 6	240,000
Notes payable	2,061,277
Current portion notes payable	(2,921,074)

Total long-term liabilities	1,344,208
Total liabilities	7,976,315
Minority interest	(246,310)
Stockholders' equity-Note 5:	
Preferred stock, no par value, 1,000,000 shares authorized, no shares issued and outstanding	-
Common stock, par value \$0.001 per share; 50,000,000 shares authorized; 12,912,069 issued and outstanding	12,912
Common stock to be issued under reorganization agreement 118,665 shares	119
Capital in excess of par value	6,218,983
Unrealized loss on investment	(165,520)
Accumulated deficit	(4,752,432)

Total stockholders' equity	1,314,062

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,044,067
	=====

See notes to condensed consolidated financial statements
F-3

Omni Medical Holdings, Inc.
Unaudited Condensed Consolidated Statements of Operations
For the three and nine month periods ended December 31, 2005 and 2004

	For the three months ended		For the nine months ended	
	December 31,		December 31,	
	2005	2004	2005	2004
Revenue	\$1,251,743	\$ 238,518	\$ 4,233,046	\$ 722,093
Cost of sales	740,567	169,180	2,285,136	431,291
	-----	-----	-----	-----
Gross operating profit	511,176	69,338	1,947,910	290,802
General and administrative expenses	1,114,906	178,375	3,156,581	554,622
	-----	-----	-----	-----
Income (loss) from operations	(603,730)	(109,037)	(1,208,671)	(263,820)
Other income (expense):				

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Interest expense	(281,691)	(10,461)	(571,982)	(28,118)
Loss on sale of assets	-	-	-	-
Gain (loss) on derivatives instruments	60,000		60,000	
Realized loss on investment	-	(77,582)	-	(77,582)
	-----	-----	-----	-----
Total other income (expense)	(221,691)	(88,043)	(511,982)	(105,700)
	-----	-----	-----	-----
Loss from continuing operations before minority interest	(825,421)	(197,080)	(1,720,653)	(369,520)
Minority interest	45,266	-	96,067	-
	-----	-----	-----	-----
Loss from continuing operations before income taxes	(780,155)	(197,080)	(1,624,586)	(369,520)
Provision for income taxes	-	-	-	-
	-----	-----	-----	-----
Loss from continuing operations	(780,155)	(197,080)	(1,624,586)	(369,520)
Discontinued operations:				
Loss from discontinued operations, net of tax	-	(52,322)	(94,233)	(150,629)
Loss on disposal of discontinued operations, net of tax	-	-	(6,520)	-
	-----	-----	-----	-----
Net loss from discontinued operations	-	(52,322)	(100,753)	(150,629)
	-----	-----	-----	-----
Net loss	<u>\$ (780,155)</u>	<u>\$ (249,402)</u>	<u>\$ (1,725,339)</u>	<u>\$ (520,149)</u>
Other comprehensive income:				
Unrealized gain (loss) on investments	(20,468)	(161,327)	(27,092)	(161,327)
	-----	-----	-----	-----
Total comprehensive income (loss)	<u>\$ (800,623)</u>	<u>\$ (410,729)</u>	<u>\$ (1,752,431)</u>	<u>\$ (681,476)</u>
Loss per share basic and diluted:				
Continuing operations	<u>\$ (0.06)</u>	<u>\$ (0.04)</u>	<u>\$ (0.13)</u>	<u>\$ (0.08)</u>
Discontinued operations	<u>\$ 0.00</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
Net loss per share-basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.05)</u>	<u>\$ (0.14)</u>	<u>\$ (0.11)</u>
Weighted average number of common shares outstanding -basic and diluted	<u>12,901,089</u>	<u>5,502,984</u>	<u>12,613,559</u>	<u>4,777,142</u>

See notes to condensed consolidated financial statements

F-4

Omni Medical Holdings, Inc.

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Unaudited Consolidated Statements of Cash Flows
For the nine month periods ended December 31, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (1,725,339)	\$ (520,149)
Adjustments to reconcile net loss to net cash used in continuing operations:		
Depreciation and amortization	548,434	151,752
Stock-based compensation expense	-	7,342
Stock issued for services	-	67,725
Non-cash interest on senior notes payable	133,333	-
Gain on derivative instruments	(60,000)	-
Minority interest	(96,067)	-
Loss on disposal of discontinued operations	6,520	
Loss on sale of assets	-	21,878
Realized loss on investment	-	77,582
Changes in operating assets and liabilities, net of effect of business acquisition and disposition:		
Accounts receivable	(385,475)	(21,395)
Prepaid expenses	(9,588)	2,568
Deposits	7,763	(350)
Accounts payable	501,294	7,685
Bank overdraft	10,128	-
Accrued expenses	910,121	3,432
	-----	-----
Net cash used in operating activities	(158,876)	(201,930)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(146,840)	(1,114)
Proceeds from sale of assets	-	1,021
Software development	(240,377)	-
Proceeds from sale of investments	-	107,219
	-----	-----
Net cash provided by (used in) investing activities	(387,217)	107,126
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on line of credit	(46,170)	26,650
Proceeds from issuance of debt	651,145	78,000
Net payments of notes payable	(224,731)	(15,916)
Proceeds from the issuance of common stock	151,000	16,350
	-----	-----
Net cash provided by financing activities	531,244	105,084
	-----	-----
NET INCREASE (DECREASE) IN CASH	(14,849)	10,280
CASH AT BEGINNING OF PERIOD	14,849	6,140
	-----	-----
CASH AT END OF PERIOD	\$ 0	\$ 16,420
	=====	=====

See accompanying notes to financial statements

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Omni Medical Holdings, Inc.
 Consolidated Statements of Cash Flows [continued]
 For the nine month periods ended December 31, 2005 and 2004

	2005	2004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest in continuing operations	\$ 140,689	\$ 23,818
Cash paid for interest in discontinued operations	-	-
Cash paid for income taxes	-	-
NON-CASH OPERATING ACTIVITIES:		
Stock issued as prepaid expenses	\$ -	\$ 72,379
NON-CASH INVESTING ACTIVITIES:		
Stock issued for short-term investments	\$ -	\$507,454
NON-CASH FINANCING ACTIVITIES:		
Stock issued to relinquish debt	\$ 25,696	\$137,500
BUSINESS ACQUISITIONS:		
Fair value of assets acquired	\$ 1,357,006	\$ -
Issuance of debt/assumption of liabilities	(357,006)	-
Common stock issued at acquisition	(1,000,000)	-
	-----	-----
Cash paid	\$ 0	\$ 0
	=====	=====

See accompanying notes to financial statements
 F-6

Omni Medical Holdings, Inc.
 Notes to Condensed Consolidated Financial Statements
 December 31, 2005

Note 1 BUSINESS, ORGANIZATION AND INTERIM FINANCIAL STATEMENTS

Business - Omni Medical Holdings, Inc. ("Omni"), a Utah corporation, provides medical billing and transcription services, and electronic medical record solutions to medical practitioners.

Interim financial statements-The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10QSB and Item 310 (b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles for complete financial statements generally accepted in the United States of America. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of the Company's financial position as of December 31, 2005. There has not been any change in the significant accounting policies of Omni Medical Holdings, Inc. for the periods presented. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended March 31, 2005.

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Note 2 BUSINESS ACQUISITIONS

Effective April 15, 2005, the Company entered into an Stock Purchase Agreement ("the Plum Creek agreement") whereby the Company acquired 100% of the outstanding shares of Plum Creek Outpatient, Inc., ("Plum Creek") an Illinois corporation and provider of medical supplies in exchange for 1,000,000 pre-split shares (250,000 post-split shares) of the Company's common stock that are "restricted securities" as defined in Rule 144 of the Securities and Exchange Commission. The Plum Creek agreement calls for a Revenue Bonus to be paid to the sellers based on annual calculations of the combined revenue of the Company and its affiliates relating to medical supplies during two revenue bonus periods ending April 15, 2006 and 2007. The Company also entered into a Put Option agreement whereby anytime during the two year period from the date of acquisition the Company, at the request of the seller, may be required to purchase some or all of the 1,000,000 issued shares at a price of \$0.20 per share or issue additional shares of the Company's common stock equal in number to the shortfall in payment of the Put Price plus ten percent divided by the closing price per share at the close of business on the last day of the payment period.

The following table summarizes the estimated fair values of the Plum Creek assets acquired and liabilities assumed as of April 15, 2005, the date of acquisition:

Accounts receivable, net	\$426,960
Equipment	40,000
Accounts payable	(5,000)
Accrued expenses	(261,960)

Net assets acquired	\$ 200,000
	=====

F-7

Omni Medical Holdings, Inc.
Notes to Consolidated Financial Statements
December 31, 2005

Note 2 BUSINESS ACQUISITIONS-[continued]

On April 15, 2005 the Company also entered into an Asset Purchase Agreement ("the Stat agreement") whereby the Company acquired the assets of Stat Anesthesia, P.C., ("Stat") an Illinois corporation and medical provider, in exchange for 4,000,000 pre-split shares (1,000,000 post-split shares) of the Company's common stock that were also "restricted securities" as defined in Rule 144 of the Securities and Exchange Commission. Additionally, Stat signed an Administrative Services Agreement with the Company in which the Company will provide financial and administrative services for all of Stat's operations. While the Company will have complete control over the administrative and financial affairs of Stat, the Company will not be involved in any way in the practice of medicine. The Stat agreement also calls for a Revenue Bonus to be paid to the sellers based on annual calculations of the combined revenue of the Company and its affiliates relating to medical services during two revenue bonus periods ending April 15, 2006 and 2007. The Company also entered into a Put Option agreement whereby anytime during the two year period from the date of acquisition the Company, at the request of the seller, may be required to purchase some or all of the 4,000,000 issued shares at a price of \$0.20 per share or issue additional shares of the Company's common stock equal in number to the

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

shortfall in payment of the Put Price plus ten percent divided by the closing price per share at the close of business on the last day of the payment period.

The following table summarizes the estimated fair values of the Stat assets acquired and liabilities assumed as of April 15, 2005, the date of acquisition:

Accounts receivable, net	\$850,046
Equipment	40,000
Accrued expenses	(90,046)

Net assets acquired	\$800,000
	=====

The DataFuzion, Plum Creek and Stat acquisitions were accounted for as purchases and their results of operations are included in the Company's financial statements from the date of acquisition.

The following proforma financial information presents results as if the DataFuzion Plum Creek and Stat acquisitions had occurred at the beginning of the nine month periods ended December 31, 2005 and 2004:

	2005	2004
Revenues	\$4,366,042	\$1,735,116
Net loss	(1,579,562)	(432,428)
Basic and diluted loss per share	\$ (0.13)	\$ (0.09)

F-8

Omni Medical Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
December 31, 2005

Note 3 GOING CONCERN

The Company's financial statements for the periods ended December 31, 2005 and 2004 show incurred net losses of \$1,725,339 and \$520,149, respectively, and has a working capital deficiency of \$4,340,158, as of December 31, 2005, raising substantial doubt about the company's ability to continue as a going concern. Management's plans to address concerns raised by this issue include:

a. Through the acquisition of Plum Creek Outpatient and administrative services agreement with Stat Anesthesia, P.C., the Company believes it has already acquired significant asset and adequate liquid assets for operation. Furthermore, management believes these companies will provide significant cash flow to provide for all corporate needs.

b. The Company also plans to raise additional capital and is working with a number of financial sources to achieve this.

There is no assurance that these or any efforts will be successful. However, management believes that these measures will enable the Company to have adequate funds to support operations for the next twelve months.

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Note 4 DISCONTINUED OPERATIONS

Effective September 1, 2005, Omni entered into a settlement agreement with McCoy Financial Services, Inc. ("MFS") whereby Omni agreed to sell, transfer, and assign to MFS all of the Company's right, title and interest in and to the transcription services segment net assets for \$10,000. As of September 1, 2005, the assets of the transcription services segment was approximately \$221,000 (primarily property and equipment of approximately \$37,000 and intangible assets of \$184,000) and transcription services segment obligations and liabilities had a carrying value of approximately \$527,000 (primarily accounts payable of approximately \$226,000 and debt of approximately \$205,000). A loss on the disposal of the assets was recognized in the amount of \$6,520. The results of operations from the transcription services segment have been retroactively restated as discontinued operations.

Note 5 COMMON STOCK

On November 4, 2005 the Company announced it has executed a 1 for 4 reverse split of it's Common shares effective November 4, 2005, resulting in 12,912,069 shares issued and outstanding after the reverse split.

Note 6 FINANCING/SENIOR NOTE PAYABLE/DERIVATIVES

On October 26, 2005 the Company entered into a Note Purchase Agreement with Sigma Opportunity Fund, LLC. Under the note purchase agreement, Sigma purchased from Omni a Senior Note due April 26, 2006 for \$400,000. Interest is accrued on the note at 5% per annum or 12% per annum in the case of default. In connection with the purchase the Company issued Warrants to purchase 15,000 pre-split shares of Omni common stock for each \$1,000 principal amount of the note for an aggregate of 6,000,000 pre-split shares (1,500,000 post-split shares) with an exercise price of \$.001 per pre-split share (\$.005 per post split share) with a 7-year life. In connection with the Note Purchase Agreement with Sigma Opportunity Fund, LLC, the Company was to file a Registration Statement within 90 days of the closing or suffer a 2% penalty per month of the note amount or \$8,000 per month. The Company has not filed the Registration Statement that was required by the Note Purchase Agreement as of the date of this Report.

The proceeds from the note have been discounted for the relative fair value of the warrants and the discount. All discounts will be amortized over the life of the notes.

F-9

Omni Medical Holdings, Inc.
Notes to Condensed Consolidated Financial Statements
December 31, 2005

Note 6 FINANCING/SENIOR NOTE PAYABLE/DERIVATIVES-[continued]

The Company has classified the warrants as derivatives and have recorded them at their fair value. The fair value of the warrants is estimated on the commitment date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 250%, risk-free interest rate of 1.5% and expected life of 7 years.

Note 7 SUBSEQUENT EVENTS

On January 20, 2006 the Company issued Warrants to purchase 250,000

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

post-split shares of the Company's common stock to West Park Capital, Inc.. The warrants are exercisable at \$.01 per share and have a 5-year life.

F-10

Item 2. Management's Discussion and Analysis

"SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

This Form 10-QSB Quarterly Report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Omni Medical Holdings, Inc. is referred to herein as "we" or "our." The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties. Statements made herein are as of the date of the filing of this Form 10-QSB with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Except as may otherwise be required by applicable law, we do not undertake, and specifically disclaim, any obligation to update any forward-looking statements contained in this Form 10-QSB to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

OVERVIEW:

Omni Medical Holdings (ONMH:OTCBB) provides a turn key back office suite of products and services to doctors, clinics and hospitals throughout the country. Omni continues to grow through its acquisition strategy and unique combination of product offerings.

Omni Medical has positioned itself to offer a complete back office solution of products and services for all medical practitioners.

Omni's DataFuzion subsidiary provides a complete line of integrated back-office products including GE Centricity and Misys practice management and electronic medical records solutions, and a proprietary web based decision support reporting tools for physicians and hospitals (InfoBridge™). Our ASP hosted products are designed to maximize practice performance by identifying revenue enhancement and cost savings opportunities, while eliminating the up front costs and ongoing expense of owning, upgrading, staffing and maintaining multiple in-house operations and reporting systems.

When practitioners provide patient care, those actions must be documented, usually by electronic dictation. Government and insurance regulations are such that these important medical records, which affect patient health, must be in readable form. Through our transcription division, this service can be delivered to any practitioner in the world through our proprietary digital web based system. All of our services are performed in the United States.

Medical billing and collections are the lifeblood of any healthcare facility, with accurate and timely collections insuring an effective practice and high standard of care. The billing process is automated through either of Omni's Centricity or Misys based hubs. Our nearly 20 years of experience extends to most medical areas, especially anesthesiology.

Omni's complete back office solution gives:

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

- * New revenue opportunities to our customers;
- * More streamlined workflow;
- * Executive managers the ability to use disease management benchmarking data, increasing revenue and providing better patient outcomes;
- * Elimination of costly data errors;
- * Ability to integrate hardware and software with other systems; and
- * "Drill down" from multiple servers, and provides greater analytical solutions.

The opportunities in the healthcare services market are enormous and the next 10 years will bring dramatic changes in how healthcare practitioners manage and operate their practices. Omni Medical Holdings, along with its DataFuzion subsidiary, is currently positioned to take advantage of those opportunities now.

RESULTS OF OPERATIONS

Three months ended December 31, 2005.

During the quarterly period ended December 31, 2005, we recorded revenue from continuing operations of \$1,251,743, a substantial increase from revenue from continuing operations of \$238,518 in the quarter ended December 31, 2004.

Cost of sales from continuing operations totaled \$740,567, versus \$169,180 in the third fiscal quarter of 2005.

During the third fiscal quarter of 2005, we recorded general and administrative expenses of \$1,114,906. These expenses totaled \$178,375 in the year-ago period.

Interest expense was \$281,691 and \$10,461 for the three-month period ended December 31, 2005, and December 31, 2004, respectively.

For the three-month period ended December 31, 2005, we incurred a loss of \$780,155, as compared to a loss of \$249,402 for the three-month period ended December 31, 2004.

Revenue increased 425% during the three months ended December 31, 2005, compared to the three month period ended December 31, 2004, due to the acquisitions of DataFuzion, Stat Anesthesia and Plum Creek Outpatient. Cost of sales increased 338% and general expenses increased 525% versus the prior year due to higher operating costs associated with DataFuzion and Stat Anesthesia. This included a 363% increase in depreciation expense and a 26 fold increase in interest expense over the previous year. Net loss increased 212% for the previously stated reason. We expect continued high levels of depreciation as DataFuzion takes a conservative accounting approach to its equipment and intangible assets. Interest expense will continue to remain high until such time as the convertible bondholders exchange their debt for equity.

Nine months ended December 31, 2005.

During the nine months ended December 31, 2005, we recorded revenue from continuing operations of \$4,233,046, an increase from revenue from continuing operations of \$722,093 in the nine months ended December 31, 2004.

Cost of sales from continuing operations totaled \$2,285,136, versus \$431,291 in the nine months ended of 2004.

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

During the nine months ended December 2005, we recorded general and administrative expenses of \$3,156,581. These expenses totaled \$554,622 in the year-ago nine month period.

Interest expense was \$571,982 and \$28,118 for the nine-month period ended December 31, 2005, and December 31, 2004, respectively.

For the nine-month period ended December 31, 2005, we incurred a loss of \$1,725,339, as compared to a loss of \$520,149 for the nine-month period ended December 31, 2004.

CAPITAL RESOURCE REQUIREMENTS

LIQUIDITY

As of December 31, 2005, Omni's working capital deficit was \$4,345,158. Our cash and cash equivalents at December 31, 2005, was \$0, and we had a bank overdraft of \$10,128.

We currently lease office space under an operating lease for \$6,000 per month, which terminates July 31, 2006.

Effective March 1, 2005, Omni entered into an Employment Agreement with Arthur D. Lyons, its chief executive officer and Douglas Davis, President through March 1, 2010. The agreement provides compensation at an annual base salary of \$180,000, a \$1,000 a month auto allowance, fully paid health insurance and a bonus of 1% of gross revenue, paid quarterly to each.

During December 2003, Omni entered into a Loan Agreement and Security Agreement with Presidential Financial Corporation allowing Omni to borrow up to 80% against certain of its accounts receivable or \$300,000, whichever is less. The loan is secured by accounts receivable and other tangible assets of Omni and accrues interest at prime plus 2%. As of December 31, 2005, approximately \$45,000 was owed on the line of credit.

During August 2005, Omni entered into a Loan Agreement and Security Agreement with Alamo Capital Corporation allowing Omni to borrow 80% against the value of certain specified accounts receivable up to \$500,000. The loan is secured by certain accounts receivable and accrues interest at prime plus 2%. As of December 31, 2005, approximately \$72,000 was owed on this line of credit.

On October 26, 2005, the Company entered into a Note Purchase Agreement with Sigma Opportunity Fund, LLC. Under the note purchase agreement, Sigma purchased from Omni a Senior Note due April 26, 2006, for \$400,000. Interest is accrued on the note at 5% per annum or 12% per annum in the case of default. In connection with the purchase, the Company issued warrants to purchase 15,000 pre-split shares of Omni common stock for each \$1,000 principal amount of the note for an aggregate of 6,000,000 pre-split shares (1,500,000 post-split shares) with an exercise price of \$0.001 per pre-split share (\$0.005 per post split share) with a 7-year life.

The proceeds from the note have been discounted for the relative fair value of the warrants and the discount. All discounts will be amortized over the life of the notes.

The Company has classified the warrants as derivatives and have recorded them at their fair value. The fair value of the warrants is estimated on the commitment date using the Black-Scholes option-pricing model with the following assumptions: dividend yield of 0%, expected volatility of 250%, risk-free interest rate of 1.5% and expected life of 7 years.

On November 4, 2005, the Company announced it has executed a 1 for 4 reverse

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

split of its outstanding common shares, effective November 4, 2005.

Item 3. Controls and Procedures.

As of the end of the period covered by this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our President and Treasurer, of the effectiveness of our disclosure controls and procedures. Based on this evaluation, our President and Treasurer concluded that our disclosure controls and procedures are effectively designed to ensure that information required to be disclosed or filed by us is recorded, processed or summarized, within the time periods specified in the rules and regulations of the Securities and Exchange Commission. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. In addition, we reviewed our internal controls over financial reporting, and there have been no changes in our internal controls or in other factors in the last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

An action has been brought by holders of promissory notes issued by our Company's majority-owned subsidiary, DataFuzion, Inc. for enforcement of the notes and possession of substantially all assets of DataFuzion which are alleged to secure payment of the notes. Plaintiffs filed a motion for possession of the assets, which was denied by the court. DataFuzion does not dispute the execution or delivery of the notes and has recorded the notes in these financial statements. In addition, DataFuzion has some claims against some of the Plaintiffs which may give rise to offsets or counterclaims against some (but in all likelihood, not all) of the Plaintiffs. Those claims have not yet been pled or fully factually explored. The current status of this matter is that the Plaintiffs have filed a Motion for Summary Judgement, seeking judgment for the notes balances (without enforcement of their claimed security interest). DataFuzion has sought and obtained an extension of time to respond to this Motion, and has initiated settlement discussions with Plaintiffs. Those settlement negotiations are ongoing.

Three former employees of DataFuzion have also brought an action against the Company seeking back pay in total of approximately \$60,000. DataFuzion disputes the claims but has offered settlement of approximately \$12,000, which has been rejected. Discussions are ongoing.

Two shareholders of DataFuzion have brought an action against DataFuzion for royalties due them related to new sales of DataFuzion's "Infobridge" software. DataFuzion disputes the amounts owed and has entered into settlement negotiations with the shareholders.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On October 26, 2005 the Company entered into a Note Purchase Agreement with Sigma Opportunity Fund, LLC. Under the note purchase agreement, Sigma purchased from Omni a Senior Note due April 26, 2006, for \$400,000. Interest is accrued on the note at 5% per annum or 12% per annum in the case of default. In connection with the purchase, the Company issued warrants to purchase 15,000 pre-split shares of Omni common stock for each \$1,000

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

principal amount of the note for an aggregate of 6,000,000 pre-split shares (1,500,000 post-split shares) with an exercise price of \$0.001 per pre-split share (\$0.005 per post split share) with a 7-year life.

On January 20, 2006 the Company issued warrants to purchase 250,000 post-split shares of the Company's common stock to West Park Capital, Inc. The warrants are exercisable at \$0.01 per share and have a 5-year life.

See Part II, Item 5, below, regarding the Company's one for four reverse split that was effected on November 4, 2005.

We issued these securities to persons who were "accredited investors," and each of whom had prior access to all material information about us. We believe that the offer and sale of these securities was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Sections 4(2) and 4(6) thereof, and Rule 506 of Regulation D of the Securities and Exchange Commission.

Item 3. Defaults Upon Senior Securities.

None; not applicable.

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

None; not applicable.

Item 5. Other Information.

On November 4, 2005, the Company announced it has executed a 1 for 4 reverse split of its outstanding common shares, effective November 4, 2005.

In connection with the Note Purchase Agreement with Sigma Opportunity Fund, LLC, the Company was to file a Registration Statement within 90 days of the closing or suffer a 2% penalty per month of the note amount or \$8,000 per month. The Company has not filed the Registration Statement that was required by the Note Purchase Agreement as of the date of this Report. See the 8-K Current Report dated October 26, 2005 and filed with the Securities and Exchange Commission on November 4, 2005.

Item 6. Exhibits.

(a) Exhibits.

31.1 302 Certification of Douglas Davis.

31.2 302 Certification of Arthur Lyons.

32 906 Certification.

SIGNATURES

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

OMNI MEDICAL HOLDINGS, INC.

Edgar Filing: OMNI MEDICAL HOLDINGS INC - Form 10QSB

Date: 2/13/06

By: /s/ Arthur D. Lyons

Arthur D. Lyons, CEO, Secretary
and Chairman of the Board

Date: 2/13/06

By: /s/ Douglas Davis

Douglas Davis, President,
Treasurer and Director