ENCOMPASS HOLDINGS, INC.
Form 10QSB
May 15, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2007

[ ] Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from __________ to __________.

Commission File Number: 000-31451

ENCOMPASS HOLDINGS, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA	**95-4756822**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1005 Terminal Way, Suite 110, Reno, Nevada 89502
(Address of principal executive office) (Zip Code)

(775) 324-8531
(Issuer's telephone number)

Indicate by checking the box below, whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.
Yes [ ] No [X]

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes [X] No [ ]

As of April 26, 2007, the number of outstanding shares of the issuer's common stock, $0.001 par value, was 265,234,750 shares.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT: Yes [ ] No [X]

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ENCOMPASS HOLDINGS, INC.

Condensed Consolidated Balance Sheets

	March 31, 2007	June 30, 2006
Assets		
Current assets:		
Cash	$ (27,031)	$ 42,062
Inventories	26,750	-
Prepaid expenses	132,149	225,916
Net current assets of discontinued operations	364,638	619,565
Total current assets	496,506	887,543
Equipment, net	3,911,460	4,025,203
Equipment of discontinued operations, net	8,674,668	9,338,711
Other assets:		
Deposits & other	3,000	3,000
Demonstration rotary engines not held for sale	2,310,000	2,310,000
Rotary engine intellectual assets	2,167,000	2,167,000
Net other assets of discontinued operations	348,801	420,392
Total other assets	4,828,801	4,900,392
	$ 17,911,436	$ 19,151,849
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 581,871	$ 499,477
Accrued liabilities	1,043,201	866,303
Long-term debt due within one year	2,960,000	2,990,000
Loans payable	238,095	95,000
Notes payable and accrued interest subject to conversion into an indeterminable number of shares of common stock	27,964	71,660
Derivative liabilities	541	6,371
Net current liabilities of discontinued operations	4,137,113	4,462,069
Total current liabilities	8,988,785	8,990,880
Long-term debt to related parties	75,000	50,000
Long-term debt	2,980,252	1,700,000
Accrued Interest	401,598	71,847
Net liabilities of discontinued operations	867,589	245,777
Minority interest	5,306,746	5,306,746
Net capital deficiency:		
Preferred stock; $.001 par value; authorized 200,000 shares;	200	200

outstanding 200,000 shares				
Common stock; $.001 par value; authorized 500,000,000 shares; issued and outstanding 48,404,481 shares (28,820,035 shares at June 30, 2006)		54,321		28,820
Convertible promissory note and accrued interest		100,000		107,140
Additional paid in capital		35,504,219		34,810,660
Retained deficit		(36,367,274)		(32,160,221)
Total stockholders' equity		(708,534)		2,786,599
	$	17,911,436	$	19,151,849

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See accompanying notes.

ENCOMPASS HOLDINGS, INC.

Condensed Consolidated Statements of Operations

	Three months ended March 31		Nine months ended March 31	
	2007	2006	2007	2006
Revenues	$ -	$ -	$ 16,200	$ -
Cost of goods sold	-	-	20,000	-
Gross profit	-	-	(3,800)	-
Operating expenses:				
General and administrative	723,960	814,227	2,068,853	1,819,344
Research and development	48,563	41,480	203,412	500,053
	772,523	855,707	2,272,265	2,319,397
Net loss from operations	(772,523)	(855,707)	(2,276,065)	(2,319,397)
Other income (expenses):				
Change in fair value of derivative liabilities	266	0	4,217	(54,334)
Interest expense, net	(150,172)	13,503	(397,305)	34,847
Other	2,326	(22,837)	82,326	(1,277)
	(147,581)	(9,334)	(310,762)	(20,764)
Net income from continuing operations before provision for income taxes	(920,104)	(843,257)	(2,586,826)	(1,736,965)
Provision for income taxes	-	-	(3,141)	(12,000)
Net loss from continuing operations	(920,104)	(843,257)	(2,589,967)	(1,748,965)
Net loss of discontinued operations, net of provision for income taxes	(457,556)	(21,784)	(1,634,860)	(603,196)
Net loss	$ (1,377,660)	$ (865,041)	$ (4,224,827)	$ (2,352,161)
Net loss per common share	(.027)	(.058)	(.106)	(.235)
Continuing operations	$ (.018)	$ (.057)	$ (.065)	$ (.175)
Discontinued operations	(.009)	(.001)	(.041)	(.060)
	$ (.027)	$ (.058)	$ (.106)	$ (.235)

See accompanying notes.

ENCOMPASS HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows

	Three months ended March 31		Nine months ended March 31	
	2007	**2006**	**2007**	**2006**
Cash flows from operating activities:				
Net loss	$ (1,377,660)	$ (843,257)	$ (2,589,967)	$ (1,748,965)
Adjustment to reconcile net loss to net cash (used in) operating activities:				
Provision for uncollectible accounts	-	-	16,200	-
Depreciation & amortization	24,998	-	113,742	-
Provision for income taxes	-	-	3,141	12,000
Change in fair value of derivative liabilities	(266)	21,353	(4,217)	54,334
Shares issued in exchange for services	-	4,356	135,616	997,453
Loss on disposal of equipment	-	1,277	-	1,277
Changes in assets and liabilities:				
Prepaid expenses	44,223	(243,458)	62,017	(262,351)
Other assets	-	-	-	27,570
Accounts payable	142,540	113,364	82,394	75,354
Accrued liabilities	173,716	390,645	671,558	277,035
	(992,449)	228,266	(1,509,515)	(566,293)
Cash flow from discontinued operations	454,766	(843,257)	(329,669)	(598,001)
Cash flows from investing activities:				
Advances received from (paid to) related parties	(4,025)	27,678	91	46,850
Discontinued operations	-	8,071	-	55,078
	(4,025)	35,749	91	101,928
Cash flows from financing activities:				
Proceeds from long-term debt	425,000	743,000	1,475,000	1,743,000
Principal payments on long-term debt	(32,500)	(64,186)	(45,000)	(88,757)
Proceeds from sale of common stock	80,000	-	340,000	-
Discontinued operations	-	(3,266)	0	(173,880)
	472,500	675,548	1,770,000	1,480,363
Net change in cash	$ (69,208)	$ 96,306	$ (69,093)	$ 417,997

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See accompanying notes.

	Three months ended March 31		Nine months ended March 31	
	2007	**2006**	**2007**	**2006**
Cash at beginning of period	$ 42,177	$ 330,789	$ 42,062	$ 9,098
Net change in cash	(69,208)	96,306	(69,093)	417,997
Cash at end of period	$ (27,031)	$ 427,095	$ (27,031)	$ 427,095
Supplemental disclosure of non-cash investing and financing activities:				
Notes payable and accrued interest converted to common stock	$ 76,360	$ 4,356	$ 169,748	$ 73,023

See accompanying notes.

ENCOMPASS HOLDINGS, INC.

Consolidated Notes to Financial Statements
March 31, 2007

1. <u>Summary of significant accounting policies</u>

BUSINESS COMBINATIONS AND BASIS OF CONSOLIDATION: The consolidated condensed financial statements include the accounts of Encompass Holdings, Inc., Aqua Xtremes, Inc., Xtreme Engines, Inc., Rotary Technologies, Inc., Nacio Systems, Inc., and Interactive Holding Group, Inc. since their acquisitions. All intercompany accounts and transactions have been eliminated.

On August 30, 2004, the Company acquired 51% of Realized Development, Inc. which changed its name to Aqua Xtremes, Inc. (“Aqua”) in December 2004. On May 9, 2005, the Company acquired the remaining 49% of Aqua.

In December 2004, Aqua formed Xtreme Engines, Inc. ("Engines") and owns 100% of its common stock.

Effective April 1, 2005, the Company acquired 100% of Nacio Systems, Inc. ("Nacio"). Nacio owns 100% of Interactive Holding Group, Inc. ("IHG").

INTERIM REPORTING: The Company's year-end for accounting purposes is June 30. In the opinion of Management, the accompanying consolidated condensed financial statements as of March 31, 2006 and 2007 and for the three months and nine months then ended, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated condensed financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The results of operations for the three months and nine months ended March 31, 2006 and 2007 are not necessarily indicative of the results to be expected for the full year.

ENCOMPASS HOLDINGS, INC.

Consolidated Notes to Condensed Financial Statements
March 31, 2007

1. Summary of significant accounting policies (continued)

DERIVATIVE INSTRUMENTS: In connection with the issuance of convertible notes payable, the terms of certain notes payable provide for principal and interest to be converted into an indeterminable number of shares of the Company's common stock. This variable conversion feature is determined to be an embedded derivative instrument and the Company has accounted for these derivatives pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and Financial Accounting Standards Board's Emerging Issues Task Force ("EITF") Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in A Company's Own Stock". Under EITF No. 00-19, the estimated fair value of the embedded derivative instrument is reported separate from the notes payable on the date of issuance as derivative liabilities.

Derivative liabilities are reported at fair value as of the balance sheet date and any change in fair value during the period is reported as other income or expense in the statement of operations.

The Company estimated the fair value of the conversion feature of its notes payable to be $541 as of March 31, 2007 and is reported in the accompanying consolidated balance sheet as derivative liabilities. Under EITF No. 00-19, this amount is reported separate from the convertible notes payable as derivative liabilities. Further, under SFAS No. 133, any change in fair value of derivative liabilities during the period is reported as other income or expense in the statement of operations. The Company recognized other income for the change in fair value of derivative liabilities in the consolidated statement of operations of $266 for the three months ended March 31, 2007 and $4217 for the nine months ended March 31, 2007.

REVENUE RECONGNITION: Revenue for Aqua consists of the sale of XBoards and is recognized when the product is shipped.

ENCOMPASS HOLDINGS, INC.

Consolidated Notes to Condensed Financial Statements
March 31, 2007

1. Summary of significant accounting policies (continued)

NET LOSS PER COMMON SHARE: Net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The weighted average number of common stock shares outstanding was 51,230,407 for the three (3) months ended March 31, 2007 and 40,038,929 for the nine (9) months ended March 31, 2007. (6,048,177 for the three (3) months ended March 31, 2006 and 8,536,231 for the nine (9) months ended March 31, 2006). Common stock to be issued is not considered to be a common stock equivalent as the effect on net loss per common share would be dilutive.

2. Operations

The Company's operating strategies focus on the development of recreational water sports products and rotary engines.

The Company has begun selling distributorships for its recreational water sports products and expects to begin manufacturing and selling those products in 2007.

Management of the Company believes that operations from the sale of these products will be profitable by the end of 2007 and that the Company will recover its development costs within five years.

The Company is dependent upon its ability to obtain additional capital and debt financing until the Company ultimately achieves profitability, if ever.

The consolidated financial statements do not reflect adjustments relating to the recorded asset amounts, or the amounts of liabilities that would be necessary should the Company not be able to continue in existence.

3. Notes payable subject to conversion into an indeterminable number of shares of common stock

Notes payable were due one year from the issuance date of the note with interest at 20% per annum. The notes, including unpaid interest, are convertible, in whole or in part, at any time after six months from the date of the note at the option of the holder. The notes are convertible at the option of the Company upon

ENCOMPASS HOLDINGS, INC.

Consolidated Notes to Condensed Financial Statements
March 31, 2007

3. **Notes payable subject to conversion into an indeterminable number of shares of common stock (continued)**

ten days written notice after six months and one year from the date of the note or at the time of any public offering by the Company in an aggregate amount of no less than $10,000,000, or upon any merger or acquisition to which the Company is a party. The notes may be converted at 90% of the closing bid price of the Company's common stock on the date of the notice of conversion. There is no limit on the number of shares of common stock that would be required to by issued upon conversion of the notes payable and the number of shares required to be issued could exceed the number of shares of the Company's common stock currently authorized. The Company would have been required to issue 1,050,000 shares of its common stock if the principal and accrued interest of the notes were converted as of March 31, 2007.

4. **Long Term Obligations**

Included in long term debt is $2,980,252 of notes payable to AJW Offshore, Ltd; AJW Partners, LLC AJW Qualified Partners, LLC; and Millennium Capital Partners II., LLC. The entire amount is convertible in whole or in part into shares of common stock of the Company at the option of the Company at a conversion price equal to the average of the three lowest closing bid prices of the Company’s common stock during the 20 trading days prior to the date of conversion at a discount of 45%.

The Company also granted AJW Offshore, Ltd; AJW Partners, LLC; AJW Qualified Partners, LLC; and New Millennium Capital Partners II, LLC warrants for the purchase of an aggregate of 3,500,000 shares of common stock of the Company at an exercise price equal to $.50 per share. The warrants are exercisable in whole or in part and warrants for the purchase of up to 1,400,000 shares expire on November 29, 2009; warrants for the purchase of up to 979,380 shares expire on January 17, 2010 if not exercised: and warrants for the purchase of 1,120,620 shares shall expire on August 8, 2010. The Company has reserved 3,500,000 shares of its common stock for issuance to these warrant holders.

During the three months ending, March 31, 2007, as partial repayment of the cash advances received from AJW Partners, LLC, AJW Qualified Partners, LLC, and New Millennium Capital Partners II, LLC, the company issued 3,250,000 shares of its common stock in return for a principle reduction of $76,360. Subsequent to March 31, 2007 the Company has issued an additional 1,750,000 common shares for a further reduction of $22,200.

5. **Common stock**

During the nine months ended March 31, 2007, the Company issued 7,250,000 shares of common stock as partial repayment of its long term debt. The amount of debt reduction was recorded at an average share price of $.022 per share. During the same period the Company also issued; 3,009,446 shares of common stock to pay for engineering services valued at $130,378; 2,500,000 shares of common stock to settle a law suit valued at $45,000 plus unspecified damages; 12,666,667 shares of common stock to third party’s for $340,000 cash; 200,000 shares of common stock to two Directors as compensation for their services; 225,000 shares of common stock to two consultants for services valued at $11,800; 350,000 common shares to a group of thirteen employees valued at $26,650 and 200,000 shares of common stock to a creditor to resolve an outstanding debt. Subsequent to March 31, 2007, the Company also issued 1,750,000 shares to liquidate its obligations under a previously signed loan agreement, at an average cost of $.022 per share; 208,263,602 shares of common stock to liquidate notes payable totaling $3,060,201; and 900,000 common shares to pay engineering fees of $18,000.

6. Nacio Systems, Inc. Spin-Off

On November 29, 2006 the board of directors for the Registrant has determined that it is in the best interests of the Registrant and its shareholders that it divest itself of its wholly-owned non-reporting subsidiary, Nacio Systems, Inc. The divestiture will take the form of a spin-off of all of the issued and outstanding common stock of Nacio held by the Registrant. The spin-off record date, distribution ratio and the distribution date are yet to be determined.

The Registrant has restated the operations of Nacio in the accompanying financial statement for all periods presented.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis contains various forward-looking statements within the meaning of the Securities and Exchange Act of 1934. These statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward looking terminology such as "may", "expect", "anticipate", "estimates", or "continue" or use of negative or other variations of comparable terminology. We caution that these statements are further qualified by important factors that could cause actual results to differ materially from those contained in our forward looking statements, that these forward looking statements are necessarily speculative, and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in our forward looking statements.

Management's discussion and analysis should be read in conjunction with the financial statements and the notes thereto.

EXECUTIVE LEVEL OVERVIEW

The Company's operating strategies focus on the development of recreational water sports products, Rotary Engines and the management of its enterprise server facilities. The Company has begun selling distributorships for its recreational water sports products and expects to begin manufacturing and selling those products in 2006.

Management has also devoted substantial efforts in the operations of Nacio by pursuing aggressive cost cutting programs and eliminated unprofitable products.

Revenues for Nacio consist of hosting, co-location and related fees; sales of third party hardware and software; fees for systems and technical integration and administration; fees for power and server connectivity services, and the sale of computer software compliance monitoring services and products.

Revenues for Aqua to date consist of the sale of dealerships and the sale of XBoards.

Encompass Holdings, Inc. presently has executive offices at 1005 Terminal Way, Reno, NV. Nacio's enterprise server facilities are located at 55 Leveroni Court, Novato, CA. Currently, the only significant business risk of Nacio's operations is that the electricity to power the Electronic Enterprise Servers is obtained from a single-source supplier, Pacific Gas & Electric. Nacio has available back-up power generators sufficient to continue to power their enterprise server facilities in the event of short-term power losses. However, if the supply of power to Nacio by Pacific Gas & Electric were delayed or curtailed, the ability of Nacio to provide services to its customers could be adversely affected.

RESULTS OF OPERATIONS

Nine months and three months ended March 31, 2007 compared to the nine months and three months ended March 31, 2006:

	Nine months ended March 31:			
	2007	**2006**	**Increase**	**%**
Sales	16,200	0	16,200	N/A

	Three months ended March 31:			
	2007	**2006**	**Increase**	**%**
Sales	0	0	0	N/A

Sales consists of only prototype XBoards.

	Nine months ended March 31:			
	2007	**2006**	**Increase**	**%**
Cost of sales	20,000	0	20,000	N/A

	Three months ended March 31:			
	2007	**2006**	**Decrease**	**%**
Cost of sales	0	0	0	N/A

Cost of sales represents licensing fees.

	Nine months ended March 31:			
	2007	**2006**	**Decrease**	**%**
General and administrative expenses	2,068,853	1,819,344	(249,509)	(13.71%)

The increase in general & administrative expenses was due primarily from the increase in interest expense.

	Three months ended March 31:			
	2007	**2006**	**Decrease**	**%**
General and administrative expenses	723,960	814,227	(90,267)	(11.09%)

The decrease in general & administrative expenses was attributable to an increase in interest expense of $164,000 and a decrease in the cost of financial consultants of $255,000.

	Nine months ended March 31:			
	2007	**2006**	**Decrease**	**%**
Research & Development expenses	203,412	500,053	(296,641)	(59.32%)

The decrease is due to fewer consulting personnel being utilized for the XBoard development.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

	March 31,	**March 31,**	**Decrease**	**%**

	2007	2006		
Total current assets	131,868	725,065	(593,197)	(81.90%)

The decrease is due to a decrease in cash $454,126 and decrease in prepaid expenses $165,821.

	March 31, 2007	March 31, 2006		%
Equipment net	3,911,460	0		N/A

	March 31, 2007	March 31, 2006		%
Demonstration rotary engines not held for resale.	2,310,000	0		N/A

	March 31, 2007	March 31, 2006		%
Rotary engine intellectual assets	2,167,000	0		N/A

All these increases are attributed to the acquisition of the 51% interest in Rotary Engine Technologies, Inc.

ITEM 3. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our President and Chief Executive Officer. Based upon that evaluation, we concluded that our disclosure controls and procedures are effective in ensuring that material information related to us, required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and regulations of the SEC. There have been no significant changes in our internal controls subsequent to the date we carried out our evaluation.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including the Company’s Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company settled the previously disclosed litigation entitled Golden Gate Investors, Inc. v Encompass Holdings, Inc. Case No. GC865836 in the Superior Court for San Diego County, California. The Company issued 2,500,000 shares of its common stock to the plaintiff for a settlement valued at $45,000 pursuant to a Settlement Agreement and Mutual Release dated October 4, 2006.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit Number	Description of Document
3.1	Articles of Incorporation as Amended *
3.2	By laws *
10.1	Manufacturing Agreement dated October 16, 2006 between Encompass Holdings, Aqua Xtremes, Inc., Xtreme Engines, Inc. and Sumeeko Industries Co. Ltd.*
10.2	Asset Acquistion Agreement dated March 28, 2006 between Encompass Holdings, Inc; Rotary Engines, Inc; Rotary Engines Technologies, Inc; Larry Cooper; Scott Webber; And Shirley Harmon. *
31.1	Rule 13a-14(a)/15d-14(a) Certification
31.2	Rule 13a-14(a)/15d-14(a) Certification
32.1	Section 1350 Certification
32.2	Section 1350 Certification

* Filed by reference to a prior filing of the Registrant.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 12, 2007	**ENCOMPASS HOLDINGS, INC.**	
	By:	/s/ ARTHUR N. ROBINS Arthur N. Robins Chief Executive Officer