

ENCOMPASS HOLDINGS, INC.
Form 10-Q
January 29, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2008
- Transition report under Section 13 or 15(d) of the Exchange Act for the transition period from _____ to _____.

Commission File Number: 333-82608

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

NEVADA
(State or other jurisdiction of
incorporation or organization)

95-4756822
(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)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 296,925,510 shares of Common Stock, as of March 31, 2008.

Transitional Small Business Disclosure Format (check one): Yes [] No []

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ENCOMPASS HOLDINGS, INC.
(A Development Stage Enterprise)

Condensed Consolidated Balance Sheets

	March 31, 2008	June 30, 2007
Assets		
Current assets:		
Cash	\$1,405	\$91,299
Prepaid expenses	-	131,380
Other current assets	-	5,793
Net current assets of discontinued operations	439,637	308,479
Total current assets	441,042	536,951
Equipment, net	521,388	600,232
Equipment of discontinued operations, net	7,930,886	8,433,989
Deposits & other assets	3,000	36,649
Net other assets of discontinued operations	351,997	349,246
	\$9,248,313	\$9,957,067
Liabilities and Net Capital Deficiency		
Current liabilities:		
Accounts payable	\$580,935	\$724,044
Accrued liabilities	1,274,526	1,131,322
Other current liabilities	283,390	269,100
Net current liabilities of discontinued operations	7,621,926	5,313,243
Total current liabilities	9,760,777	7,437,709
Long-term obligations	3,934,617	3,547,138
Accrued interest	558,204	176,404
Long-term obligations of discontinued operations	-	64,870
Minority interest	776,096	1,276,003
Net capital deficiency:		
Preferred stock; no par value; authorized 200,000 shares:		
Series A - 100,000 shares designated, issued & outstanding	100	100
Series B - 100,000 shares designated, issued & outstanding	100	100
Common stock; \$.001 par value; authorized 500,000,000 shares; issued and outstanding 297,050,580 shares at		

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March 31, 2008 (270,534,750 shares at June 30, 2007)	297,051	270,535
Convertible promissory note & accrued interest	124,296	118,279
Additional paid in capital	38,697,901	38,705,209
Retained deficit	(30,423,933)	(30,423,933)
Deficit accumulated during the development stage	(14,476,896)	(11,215,347)
Net capital deficiency	(5,781,381)	(2,545,057)
	\$9,248,313	\$9,957,067

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(A Development Stage Enterprise)

Condensed Consolidated Statements of Operations

	Nine months ended March 31,		Three months ended March 31,		Cumulative activity during development stage April 1, 2006 through March 31, 2008
	2008	2007	2008	2007	
Operating expenses:					
General & administrative	\$1,024,831	\$2,072,653	\$47,962	\$723,960	\$6,882,982
Research & development	276,171	203,412	87,902	48,563	1,336,153
Write-down of rotary engine patterns, demonstration engines not held for sale, & intellectual assets	-	-	-	-	7,717,000
Total operating expenses	1,301,002	2,276,065	135,864	(772,523)	15,936,135
Net loss from operations	(1,301,002)	(2,276,065)	(135,864)	(772,523)	(14,816,009)
Other income (expenses):					
Change in fair value of derivative liabilities	(2,289)	4,217	-	-	(6,229)
Other income	-	82,326	-	2,326	-
Interest expense, net	(263,937)	(388,160)	(90,578)	(141,027)	(937,079)
Total other income (expenses)	(266,226)	(301,617)	(90,578)	(138,701)	(943,308)
Net loss for continuing operations before minority interest in loss of subsidiary & provision for income taxes	(1,567,228)	(2,577,682)	(226,442)	(911,224)	(15,759,317)
Minority interest in net loss of subsidiary	-	-	(67,740)	-	4,180,959
Provision for income taxes - State of California	(800)	(3,141)	-	-	(800)
Net loss from continuing operations	(1,568,028)	(2,580,823)	(294,182)	(911,224)	(11,579,158)
Discontinued operations - net loss from discontinued operations	(1,693,521)	(1,617,006)	(764,830)	(439,702)	(2,897,738)
Net loss	\$(3,261,549)	\$(4,197,829)	\$(1,059,012)	\$(1,350,926)	\$(14,476,896)

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Net loss per common share:										
Continuing operations	\$(0.006)	\$(0.065)	\$(0.001)	\$(0.018)	\$(0.080)
Discontinued operations	(0.006)	(0.040)	(0.003)	(0.008)	(0.020)
Net loss per common share	\$(0.012)	\$(0.105)	\$(0.004)	\$(0.026)	\$(0.100)

ENCOMPASS HOLDINGS, INC.
(A Development Stage Enterprise)

Condensed Consolidated Statements of Cash Flows

	Nine months ended March 31,		Three months ended March 31,		Cumulative activity during development stage April 1, 2006 through March 31, 2008
	2008	2007	2008	2007	
Cash flows from operating activities:					
Net loss	\$(3,261,549)	\$(4,197,829)	\$(1,059,012)	\$(1,350,926)	\$(14,476,896)
Net loss from discontinued operations	1,693,521	1,617,006	764,830	439,702	2,897,738
Adjustments to reconcile net loss to net cash used in continuing operating activities:					
Minority interest in net loss of subsidiary	(499,907)	-	(438,650)	17,854	776,096
Impairment of long-lived assets	-	-	-		7,717,000
Depreciation	78,844	113,742	37,499	24,988	263,815
Shares issued in exchange for services	-	135,616	-	-	135,616
Change in fair value of derivative liabilities	2,289	(4,217)	-	-	6,229
Changes in assets and liabilities, net of acquisition:					
Prepaid expenses	165,029	67,108	26,750	40,198	297,970
Checks outstanding in excess of deposits	-	27,031		27,031	-
Accounts payable	(143,108)	82,395	(4,895)	142,540	270,973
Accrued liabilities	143,204	186,506	36,350	6,351	743,130
Accrued interest	394,504	308,766	48,594	140,363	577,360
Other	17,793	181,483	42,795	9,145	(114,462)
	(1,409,380)	(1,482,393)	(545,739)	(502,754)	(905,431)
Net cash provided by (used in) discontinued operating activities	922,237	(329,669)	443,373	(11,923)	(1,758,064)
Net cash flows from investing activities-					
Net cash flows from discontinued investing activities					
	(2,751)	-	63,712	-	(473,419)
	(2,751)	-	63,712	-	(473,419)

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Cash flows from financing activities:					
Borrowings from long-term obligations	400,000	1,475,000	-	425,000	2,460,000
Principal repayments on long-term obligations	-	(45,000)	-	(32,500)	(45,000)
Proceeds from sale of common stock	-	340,000	-	80,000	340,000
Net cash flows from discontinued financing activities	-	-	-	-	(43,756)
	400,000	1,770,000	-	472,500	2,711,244
Net decrease in cash	(89,894)	(42,062)	(38,654)	(42,177)	(425,670)
Cash at beginning of period	91,299	42,062	40,059	42,177	427,075
Cash at end of period	\$1,405	\$-	\$1,405	\$-	\$1,405

ENCOMPASS HOLDINGS, INC.
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements
March 31, 2008

1. Summary of significant accounting policies

Business: Encompass Holdings, Inc. (the “Company” or “Encompass”) is incorporated under the laws of the State of Nevada.

Interim reporting: Encompasses’ year-end for accounting and tax purposes is June 30. In the opinion of Management, the accompanying consolidated financial statements as of March 31, 2008 and 2007 and for the three and nine months then ended, consisting of only normal recurring adjustments, except as noted elsewhere in the notes to the consolidated financial statements, necessary to present fairly its financial position, results of its operations and cash flows. The results of operations for the three and nine months ended March 31, 2008 and 2007 are not necessarily indicative of the results to be expected for the full year.

Business combinations & basis of consolidation: The consolidated financial statements include the accounts of Encompass and its wholly-owned subsidiaries NACIO Systems, Inc. (“NACIO”); AquaXtremes, Inc. (“Aqua”); Xtreme Engines, Inc. (“Engines”), and its 51% owned subsidiary Rotary Engines Technology, Inc. (“RETI”).

On November 29, 2006, the Board of Directors approved a formal plan to divest Encompass’ interest in NACIO and cease providing integrated communications of high speed Internet access and managed server and computer software compliance monitoring services and products. Accordingly, NACIO and IHG are reported as discontinued operations in the accompanying consolidated financial statements. The divestiture has not yet been completed as of March 31, 2008.

All inter-company accounts and transactions have been eliminated.

Development stage enterprise: On April 10, 2006, the Company changed its focus from the manufacturing of recreational water sports products and the marketing of one of its products known as the XBoard™ to the development of rotary engines primarily for commercial use.

Because the rotary engine is still developing and the Company has not recognized sales from rotary engine products, the Company is considered to be in the development stage. Accordingly, the Company has adopted the accounting and reporting standards of Statement of Financial Accounting Standards (“SFAS”) No. 7, “Accounting and Reporting by Development Stage Enterprises”.

Research and development: Research and product development costs, which consist of direct product development costs, salaries and related benefits costs, and indirect costs, including facility costs based on the proportionate share of facility use are expensed as incurred.

ENCOMPASS HOLDINGS, INC.
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements
March 31, 2008

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 284,451,235 for the nine months ended March 31, 2008; 40,038,929 for the nine months ended March 31, 2007; 294,186,186 for the three months ended March 31, 2008; 51,230,407 for the three months ended March 31, 2007; and 144,894,785 for the cumulative activity during development stage April 1, 2006 through March 31, 2008. Convertible notes payable and warrants are not considered to be common stock equivalents as the effect on net loss per common share would be anti-dilutive.

The Company adopted the provisions of SFAS No. 128R, "Earnings per share – an amendment of FASB Statement No. 128" addressing contingently convertible debt and several other issues on July 1, 2006. There was no effect on the computation of earnings per share as a result of the adoption of SFAS No. 128R as the effect was anti-dilutive.

Significant risks & uncertainties: The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates and assumptions primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

2. Operations

In the fourth quarter of fiscal year ended June 30, 2007, the Company's operating strategies have included the development of recreational water sports products and the development of a variety of sizes of rotary engines that will be powered by various fuels for commercial use. The engines will also be utilized to power recreational water sports products being developed by the Company.

Encompass has been dependent upon debt and equity financing to continue its development of rotary engine products. To date, the Company received an aggregate of \$2,460,000 in equity and debt financing to continue its activities. There can be no assurances that the Company will be able to continue to raise additional financing.

In November 2006, the Company adopted a formal plan to divest Encompass' interest in NACIO and cease providing integrated communications of high speed Internet access and managed server and computer software compliance monitoring services and products. Since its acquisition, NACIO has been dependent upon Encompass for debt and equity financing and has not achieved profitability.

ENCOMPASS HOLDINGS, INC.
(A Development Stage Enterprise)

Notes to Condensed Consolidated Financial Statements
March 31, 2008

2. Operations (continued)

Management believes these actions will enable it to continue in existence until it achieves profitable operations. 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. Contingencies and litigation

NACIO is the plaintiff in a lawsuit against a former employee for retrieval of certain intellectual property and damages related to the unlawful use of one of NACIO's intellectual software properties, as well as for business interference. There is no provision in the accompanying consolidated financial statements as a result of this gain contingency.

NACIO is a co-defendant in a lawsuit claiming damages of approximately \$42,000 for legal fees connected to the defense of a former NACIO officer. NACIO denies any wrongdoing, has filed a counterclaim against the former officer, and has been vigorously defending itself against the claim. The amount has been previously reported as accounts payable in the accompanying consolidated financial statements. The counterclaim, filed by NACIO against the former officer, seeks a settlement in excess of \$1,000,000. There is no provision in the accompanying consolidated financial statements for the counterclaim as a result of this gain contingency.

Encompass is a co-defendant in a lawsuit by a former officer of NACIO claiming damages of \$8,000,000 when it acquired certain assets of NACIO. In August 2007, Encompass and NACIO were previously resolved of any wrongdoing in a similar lawsuit filed by Nacio Investment Group, LLC, except for the repayment of loans advanced to NACIO by Nacio Investment Group, LLC. The loans were previously reported in the consolidated financial statements. Encompass denies any wrongdoing and believes the lawsuit will be dismissed similar to the previous case.

No provision for losses has been provided in the accompanying consolidated financial statements as the outcome of this matter is uncertain.

NACIO is non-compliant with respect to certain federal and state payroll related liabilities. Included in current liabilities of discontinued operations is approximately \$255,500 of unpaid payroll taxes.

4. Preferred stock

The Company's preferred stock may be voting or have other rights and preferences as determined from time to time by the Board of Directors.

ENCOMPASS HOLDINGS, INC.
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Notes to Condensed Consolidated Financial Statements
March 31, 2008

4. Preferred stock (continued)

The Board of Directors has designated 100,000 shares of its preferred stock as Series "A". The Series "A" preferred stock is convertible, at the option of the Company, into 1,000,000 shares of its common stock. The Company has reserved 1,000,000 shares of its common stock to be issued in the event of conversion.

The Board of Directors has designated 100,000 shares of its preferred stock as Series "B". The Series "B" preferred stock is entitled to: dividends in the same manner as holders of common stock, vote on all matters at 250 votes per share as a single class of shareholder, and liquidation preferences in the same manner as holders of common stock.

5. Common stock

During the nine months ended March 31, 2008, the Company issued an aggregate of 26,515,830 shares of its common stock in exchange for convertible notes payable. The shares were issued valued at approximately \$19,200.

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.

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

Three months and nine months ended March 31, 2008 compared to the three months and nine months ended March 31, 2007:

	2008	Three months ended March 31: 2007	Decrease	%
General & administrative operating expenses	\$47,962	\$723,960	\$(675,998)	(0.934)

	2008	Nine months ended March 31: 2007	Decrease	%
General & administrative operating expenses	\$1,024,831	\$2,072,653	\$(1,047,822)	(0.506)

The decrease in general and administrative operating expenses was attributable to a decrease in consulting fees and financial consultants during the three months and nine months ended March 31, 2008.

	2008	Three months ended March 31: 2007	Increase	%
Research and development expenses	\$87,902	\$48,563	\$39,339	0.810

	2008	Nine months ended March 31: 2007	Increase	%
Research and development expenses	\$276,171	\$203,412	\$72,759	0.358

The increase in research and development expenses was attributable to developing the fuel management system of the rotary engine.

	2008	Three months ended March 31: 2007	Decrease	%
Interest expenses, net	\$90,578	\$141,027	\$(50,449)	(0.358)

	2008	Nine months ended March 31: 2007	Decrease	%
Interest expenses, net	\$263,937	\$388,160	\$(124,223)	0.320

The decrease in interest expense was attributable to the retirement of short and long-term debt during the previous year to date.

FINANCIAL POSITION & LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2008 compared to June 30, 2007:

	March 31, 2008	June 30, 2007	Decrease	%
Prepaid expenses	\$0	\$131,380	\$(131,380)	(1.000)

The decrease in prepaid expenses was attributable to the decrease in prepaid insurance during nine months ended March 31, 2008.

	March 31, 2008	June 30, 2007	Decrease	%
Accounts payable	\$580,935	\$724,044	\$(143,109)	0.198

The decrease in accounts payable was attributable to the retirement of short-term debt from available cash during the nine months ended March 31, 2008.

	March 31, 2008	June 30, 2007	Increase	%
Accrued liabilities	\$1,274,526	\$1,131,322	\$143,204	0.127

The increase in accrued liabilities was attributable to the accrual of management salaries that were not paid during the nine months ended March 31, 2008. Rather, available cash was used to retire short-term debt.

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 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the nine months ended March 31, 2008, the Company issued 26,515,830 shares of its common stock in exchange for long-term obligations of \$22,866.

All of the described transactions were in reliance in the exemptions from registration provided by either Section 4(2) or Section 4(6) of the Securities Act of 1933 as transactions not involving a public offering or as transactions with accredited investors.

ITEM 5.

OTHER EVENTS

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 will prepare and distribute to its shareholders of record and Information Statement substantially in the form required by Regulation 14C of the Securities Exchange Act of 1934 (“1934 Act”) and will file and have declared effective a registration statement on Form 10-SB under the 1934 Act for Nacio prior to the spin-off distribution. The Company filed a report on Form 8K disclosing this event on March 8, 2007.

The Registrant has accounted for this transaction as “discontinued operations” in its periodic reports under the 1934 Act.

ITEM 6.

EXHIBITS

(a) Exhibits.

Exhibit Number	Description of Document
3.1	Articles of Incorporation as Amended *
3.2	By laws *
31	Rule 13a-14(a)/15d-14(a) Certification
32	Section 1350 Certification

* Previously filed

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.

ENCOMPASS HOLDINGS, INC.

January 28, 2010

By: /s/ J. SCOTT WEBBER
J. Scott Webber
Chief Executive Officer