GIANT MOTORSPORTS INC
Form 10-Q/A
January 23, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

|X| Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 30, 2005

OR

|_| Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _________ to _________

Commission File Number: 000-50243

GIANT MOTORSPORTS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	33-1025552
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

13134 State Route 62, Salem, Ohio 44460

(Address of Principal Executive Offices) (Zip Code)

(440) 332-8534

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 |_|

Indicate by check mark whether the Registrant is an accelerated filer (as defined in rule 12b-2 of the Exchange Act)

Yes |_| No |X|

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

As of January 20, 2006 the registrant had 10,445,000 shares of common stock, $.001 par value, issued and outstanding.

GIANT MOTORSPORTS, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GIANT MOTORSPORTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2005 Unaudited	Dec. 31, 2004 Audited

ASSETS

CURRENT ASSETS		
Cash and cash equivalents	$ 469,588	$ 1,862,187
Accounts receivable, net	4,516,190	2,465,369
Accounts receivable, affiliates	65,823	65,823
Inventories	17,798,845	16,538,087
Accounts receivable, employees	42,254	--
Notes receivable, officers	135,099	254,029
Deferred federal income taxes	8,500	8,500
Prepaid expenses	37,296	61,875
Prepaid income taxes	151,000	--
TOTAL CURRENT ASSETS	23,224,595	21,255,870
FIXED ASSETS, NET	1,754,438	1,105,667
OTHER ASSETS		
Intangibles, net	1,653,950	1,588,950
Deferred federal income taxes	1,600	--
Deposits	43,000	67,240
TOTAL OTHER ASSETS	1,698,550	1,656,190
	$ 26,677,583	$ 24,017,727

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

GIANT MOTORSPORTS, INC.

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	June 30, 2005 Unaudited	Dec. 31, 2004 Audited
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Notes payable	$ 1,349,863	$ 1,425,00
Notes payable, floor plans	19,380,306	17,788,70
Note payable, officer	236,361	-
Accounts payable, trade	1,442,628	1,226,98
Accrued expenses	364,909	172,28
Accrued warranty	45,000	90,00
Accrued income taxes	605,300	393,30
Customer deposits	254,672	344,14
Current portion of long-term debt	214,760	214,76
TOTAL CURRENT LIABILITIES	23,893,799	21,655,17
DEFERRED FEDERAL INCOME TAXES	--	37,40

LONG-TERM DEBT, NET	891,316	996,26
TOTAL LIABILITIES	24,785,115	22,688,84
COMMITMENTS		
STOCKHOLDERS' EQUITY		
Common stock, $.001 par value, authorized 75,000,000 shares, 10,445,000 shares and 10,425,000 issued and outstanding at June 30, 2005 and December 31, 2004	10,445	10,42
Paid-in capital	1,026,114	1,014,53
Retained earnings	855,909	303,92
TOTAL STOCKHOLDERS' EQUITY	1,892,468	1,328,88
	$ 26,677,583	$ 24,017,72

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

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GIANT MOTORSPORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the six and three months ended June 30, 2005 and 2004

	Six Months Ended		
	June 30, 2005 (Unaudited)	June 30, 2004 (Unaudited)	Ju (Una
OPERATING INCOME			
Sales	$ 55,083,332	$ 33,163,590	$ 34
Finance, insurance and extended service revenues	1,452,046	788,835	1
TOTAL OPERATING INCOME	56,535,378	33,952,425	35
COST OF MERCHANDISE SOLD	49,940,805	29,896,872	31
GROSS PROFIT	6,594,573	4,055,553	4
OPERATING EXPENSES			
Selling expenses	3,612,003	1,942,826	2
General and administrative expenses	1,870,979	1,175,049	
	5,482,982	3,117,875	3
INCOME FROM OPERATIONS	1,111,591	937,678	1

OTHER INCOME AND (EXPENSE)			
Other income, net	34,140	7,373	
Interest expense, net	(420,750)	(306,073)	
	(386,610)	(298,700)	
INCOME BEFORE INCOME TAXES	724,981	638,978	1
PROVISION FOR INCOME TAXES	173,000	245,600	
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 551,981	$ 393,378	$ 1
BASIC EARNINGS PER SHARE	$ 0.05	$ 0.04	$
DILUTED EARNINGS PER SHARE	$ 0.05	$ 0.03	$
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	10,426,657	10,425,000	10
DILUTED	11,426,657	10,975,000	11

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

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GIANT MOTORSPORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

For the six months ended June 30, 2005 and 2004

	2005 (Unaudited)	2004 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 551,981	$ 393,378
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	145,810	59,870
Amortization	65,000	--
Deferred federal income taxes	(39,000)	(122,000)
Issue common stock for services	11,600	
(Increase) in accounts receivable, net	(2,050,821)	(3,209,918)
(Increase) in accounts receivable, employees	(42,254)	--
(Increase) in inventories	(1,260,758)	(5,629,402)
Increase in floor plan liability	1,591,600	5,030,025
(Increase) decrease in prepaid expenses	24,579	(78,678)
(Increase) in prepaid income taxes	(151,000)	--
Increase (decrease) in customer deposits	(89,468)	697,354

Increase in deferred service contract income	--	403,086
Increase in accounts payable trade	215,642	777,328
Increase in accounts payable affiliate	--	25,070
Increase in accrued income taxes	212,000	367,600
Increase in accrued expenses	192,628	223,087
Decrease in accrued warranty	(45,000)	--
NET CASH (USED IN) OPERATING ACTIVITIES	(667,461)	(1,063,200)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(551,009)	(666,421)
Decrease in accounts receivable affiliates	--	306,780
(Increase) decrease in notes receivable from officers	118,930	(97,539)
Covenant not to compete incurred	(130,000)	
Increase in deposits	24,240	--
NET CASH (USED IN) INVESTING ACTIVITIES	(537,839)	(457,180)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings (payments) on notes	(75,137)	500,000
Long-term borrowings on note	--	1,250,000
Payments on long-term debt	(104,951)	(39,753)
Payments on note payable to officer	(7,211)	--
Distributions	--	(345,667)
Issue 1,000,000 stock warrants	--	15,000
Repurchase 8,000,000 shares of common stock	--	(21,250)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(187,299)	1,358,330
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,392,599)	(162,050)
CASH AND CASH EQUIVALENTS, beginning of period	1,862,187	587,917
CASH AND CASH EQUIVALENTS, end of period	$ 469,588	$ 425,867

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

GIANT MOTORSPORTS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

For the six months ended June 30, 2005 and 2004

	2005 (Unaudited)	2004 (Unaudited)
OTHER SUPPLEMENTARY CASH FLOW INFORMATION		
Short-term borrowings incurred for the acquisition of assets	$ --	$ 1,675,000

Note payable to officer incurred for the acquisition of assets	$ 243,572	$ --
Income taxes paid	$ 68,000	$ --
Interest paid	$ 395,406	$ 132,453
Stock issued for outside services	$ 11,600	$ --

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

GIANT MOTORSPORTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2005 and 2004
(UNAUDITED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements and notes are presented as permitted on Form 10-Q and do not contain information included in the Company's annual consolidated statements and notes. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these condensed consolidated financial statements be read in conjunction with the December 31, 2004 audited financial statements and accompanying notes thereto. While management believes the procedures followed in preparing these condensed consolidated financial statements are reasonable, the accuracy of the amounts are in some respects dependent upon the facts that will exist, and procedures that will be accomplished by the Company later in the year.

These condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments which, in the opinion of management, are necessary to present fairly the consolidated operations and cash flows for the periods presented.

Organization:

Giant Motorsports, Inc., (the Company) through its wholly owned subsidiaries, W.W. Cycles, Inc. doing business as Andrews Cycles and Chicago Cycles, Inc. doing business as Chicago Cycle Center, operates two retail dealerships of motorcycles, all terrain vehicles, scooters and personal watercraft in northeastern Ohio and northern Illinois. On December 30, 2003, the stockholders of W.W. Cycles, Inc. entered into a Stock Purchase and Reorganization Agreement in which effective January 16, 2004 W.W. Cycles, Inc. was issued an aggregate of 7,850,000 restricted shares of common stock, $.001 par value, of American Busing Corporation in exchange for all of the outstanding shares of the common stock of the Company, resulting in W.W. Cycles, Inc. becoming a wholly-owned subsidiary of American Busing Corporation. The acquisition was accounted for as a reverse merger whereby, for accounting purposes, WW Cycles, Inc. is considered the accounting acquirer and the historical financial statements of WW Cycles, Inc. became the historical financial statements of Giant Motorsports, Inc. Effective April 5, 2004 American Busing Corporation changed its name to Giant Motorsports, Inc. On April 30, 2004, Giant Motorsports, Inc. acquired substantially all of the assets and certain liabilities of Chicago Cycle Center pursuant to an Asset Purchase Agreement and entered into a Non-Competition Agreement with one of the former owners and entered into an Employment Agreement with the other former owner.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation:

The condensed consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents:

Cash and cash equivalents include amounts held in demand deposit accounts and overnight investment accounts. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Contracts in Transit:

Contracts in transit represent customer finance contracts evidencing loan agreements or lease agreements between the Company, as creditor, and the customer, as borrower, to acquire or lease a vehicle whereby a third-party finance source has given the Company initial, non-binding approval to assume the Company's position as creditor. Funding and approval from the finance source is provided upon the finance source's review of the loan or lease agreement and related documentation executed by the customer at the dealership. These finance contracts are typically funded within ten days of the initial approval of the finance transaction by the third-party finance source. The finance source is not contractually obligated to make the loan or lease to the customer until it gives its final approval and funds the transaction. Until such final approval is given, contracts in transit represent amounts due from the customer to the Company. See Note B for additional information.

Allowance for Doubtful Accounts:

Accounts are written off when management determines that an account is uncollectible. Recoveries of accounts previously written off are recorded when received. An estimated allowance for doubtful accounts is determined to reduce the Company's receivables to their carrying value, which approximates fair value. The allowance is estimated based on historical collection experience, specific review of individual customer accounts, and current economic and business conditions. Historically, the Company has not incurred any significant credit related losses. Management has determined that an allowance of $25,000 is necessary at June 30, 2005.

Revenue Recognition:

Vehicle Sales:

The Company records revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is performed and when parts are delivered. Sales promotions that are offered to customers are accounted for as a reduction to the sales price at the time of sale. Incentives, rebates and holdbacks offered by manufacturers directly to the Company are recognized at the time of sale if they are vehicle specific, or as earned in accordance with the manufacturer program rules and are recorded as a reduction of cost of merchandise sold.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued):

Finance, Insurance and Extended Service Revenues:

The Company arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers and the interest rates set by the financing institution. The Company also receives commissions from the sale of various third party insurance products to customers and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions the Company receives may be charged back based on the relevant terms of the contracts. The revenue the Company records relating to commissions is net of an estimate of the ultimate amount of chargebacks the Company will be required to pay. Such estimates of chargeback experience are based on our historical chargeback expense arising from similar contracts. The Company also acts as the warrantor on certain extended service contracts and defers the revenue and recognized it over the life of the contract on a straight-line basis.

Fair Value of Financial Instruments:

Financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and debt, including floor plan notes payable. The carrying amount of all significant financial instruments approximates fair value due either to length or maturity or variable interest rates that approximate prevailing market rates.

Inventories:

Parts and accessories inventories are stated at the lower of cost or market using the first-in, first-out method. Vehicle inventories are stated at the lower of cost or market using the specific identification method.

Concentration of Credit Risk:

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to review the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy. In the ordinary course of business, the Company has bank deposits and overnight repurchase agreements that may exceed federally insured limits. At June 30, 2005, the Company had $900,667 in excess of the federally insured limit.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk (continued):

Concentration of credit risk, with respect to accounts receivable-customers, is limited through the Company's credit evaluation process. The Company reviews the credit history before extending credit. Generally, the Company does not require collateral from its customers

Property and Equipment:

Property, equipment, and leasehold improvements are stated at cost. Maintenance and repairs that do not add materially to the value of the asset nor appreciably prolong its useful life are charged to expense as incurred. Gains or losses on the disposal of property and equipment are included in the determination of income.

Depreciation of property and equipment and amortization of leasehold improvements are provided using the straight-line method over the following estimated useful lives:

Fixtures, and equipment	3-7 years
Vehicles	5 years
Leasehold Improvements	10 years

Goodwill And Other Intangible Assets:

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142 "Goodwill and Other Intangible Assets". This statement addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB opinion No. 17, "Intangible Assets". It addresses how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in the financial statements upon their acquisition. This Statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. The Company, in its acquisitions, recognized $1,588,950 of goodwill. The Company performs its annual impairment test for goodwill at year-end. In addition, the Company acquired a Non-Compete Agreement in the amount of $500,000 effective January 1, 2005. Originally the Agreement was to be amortized over two (2) years, expiring on December 31, 2006. However, the holder of the Non-Compete Agreement violated the agreement in June 2005, and the agreement was renegotiated to a one-year term expiring December 31, 2005. The carrying value has been written down to a net realizable value of $130,000 and will be amortized to the end of 2005.

	Gross Carrying Amount	Accumulated Amortization
Non-Compete Agreements	$ 130,000	$ 65,000
Goodwill	$ 1,588,950	$ -0-

GIANT MOTORSPORTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005 and 2004
(UNAUDITED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes:

Income taxes are calculated using the liability method specified by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

At June 30, 2005, income taxes are provided for amounts currently due and deferred amounts arising from temporary differences between income for financial reporting and income tax purposes.

Advertising Costs:

Advertising costs are expensed when incurred. Charges to operations amounted to $835,571 and $482,411 for the six months ended June 30, 2005 and 2004 respectively.

Earnings Per Share of Common Stock:

Historical net income per share is computed using the weighted average number of shares of common shares outstanding. Diluted earnings per share (EPS) include additional dilution from common stock equivalents, such as stock issuable pursuant to the exercise of stock options and warrants. Common stock equivalents are not included in the computation of diluted earnings per share when the Company reports a loss because to do so would be anti-dilutive for the periods presented.

The following is a reconciliation of the computation for basic and diluted EPS:

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Income (loss)	$ 551,981	$ 393,378
Weighted-average common shares outstanding (Basic)	10,426,657	10,425,000
Weighted-average common stock equivalents:		
Warrants	1,000,000	550,000
Weighted-average common shares outstanding (Diluted)	11,426,657	10,975,000

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

NOTE B - ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of receivables due from customers and dealers, manufactures, employees, and finance companies for contracts in transit and is net of an allowance for doubtful accounts of $25,000 at June 30, 2005.

NOTE C - INVENTORIES

Inventories consisted of vehicles and parts and accessories.

NOTE D - FIXED ASSETS

Fixed assets consisted of the following:

	June 30, 2005
Fixtures and equipment	$ 1,691,982
Vehicles	360,747
Leasehold improvements	264,328
	2,317,057
Less accumulated depreciation	562,619
NET FIXED ASSETS	$ 1,754,438

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Depreciation expense charged to operations amounted to $145,810 for the six months ended June 30, 2005.

NOTE E - NOTES RECEIVABLE OFFICERS

Notes receivable officers consisted of advances to officers and advances to companies that the officers own bearing interest at 6% with no stipulated repayment terms. Interest income on these notes amounted to $6,125 for the six months ended June 30, 2005. The notes are expected to be repaid by December 31, 2005. The interest income is "netted" against interest expense for financial statement purposes.

NOTE F - LINE OF CREDIT

The Company has a $250,000 revolving line of credit, which aggregates $249,863 at June 30, 2005. The revolving line of credit has no stipulated repayment terms. The loan bears interest at prime (6.25% at June 30, 2005) plus one percent, and is collateralized by substantially all of the Company's assets.

NOTE G - NOTES PAYABLE - FLOOR PLANS

The Company has various floor plan financing agreements aggregating $19,380,306 at June 30, 2005. Interest is payable monthly and fluctuates with prime and varies based on the type of unit financed and the length of time the unit remains on the floor plan (ranging from 3% to 18% at June 30, 2005). Principle payments are due upon the sale of the specific unit financed. The floor plans are collateralized by substantially all corporate assets.

NOTE H - NOTES PAYABLE

Notes payable consisted of $850,000 loan payable to Kings Motorsports, Inc. at June 30, 2005 for the purchase of the assets of Chicago Cycles, Inc. bearing interest at 6%, payable in full April 30, 2005. This note has been renegotiated with regards to the repayment terms. It has been extended until April 2006.

The Company also has an outstanding Bridge Loan with an independent funding company bearing interest at 14%. This Bridge Loan, which is in a principal amount of $500,000, was due in full on October 15, 2004. The Company paid $250,000 of the outstanding principal amount by such date and also paid such independent funding company a fee in the amount of $2,500 to extend the balance until January 15, 2005. The Company has not made any additional principal payments, but is currently making monthly interest payments. The balance as of June 30, 2005 is $250,000, which is classified as a current liability.

NOTE I - NOTE PAYABLE - OFFICER

Note payable to officer consisted of non-interest bearing advances from an officer of the Company with no stipulated repayment terms. The notes are expected to be repaid by December 31, 2005.

NOTE J - LONG-TERM DEBT

Long-term debt consisted of various notes aggregating $1,106,076 at June 30, 2005. This amount matures at various times ranging from 2005 to 2009, bearing interest at various rates ranging from 7.25% to 8% per year. The notes are collateralized by substantially all of the Company's assets. The short-term portion of all long-term debt amounted to $214,760 as of June 30, 2005.

After the payment of an aggregate of $130,000 to one of the owners of King's Motorsports, under the terms of a Non-Compete Agreement in which the Company agreed to pay such owner a total of $500,000 in consideration for a covenant not to compete with the Company's business (See Note A - Goodwill and Other Intangible Assets), the Company, in May 2005, canceled the remaining payments due thereunder, as a result of said owner's violation of the terms of the Non-Compete Agreement. This indebtedness was no longer reflected in the Company's financial statements as of June 30, 2005.

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GIANT MOTORSPORTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005 and 2004
(UNAUDITED)

NOTE K - LEASES

The Company leases its Illinois subsidiary retail facility under a ten year agreement with a ten year renewal option. The payments on the lease will commence in August 2005 at a monthly rent of $33,333 through May 2006 then increasing to $40,000 per month from June 2006 through May 2007, $45,000 per month from June 2007 through May 2008, $46,667 from June 2008 through May 2009 and then increasing 3% annually for the remaining term of the lease. The Company will also be liable for a proportionate share of expenses and taxes over a specified amount.

The following is a summary of future minimum lease payments under operating leases that have initial or remaining non-cancelable terms in excess of one year as of June 30, 2005:

YEAR ENDING	AMOUNT
2005	360,917
2006	875,093
2007	947,209
2008	986,159
2009	1,009,810
2010	1,032,905
	$ 5,212,093

NOTE L - INCOME TAXES

Income taxes (credit) consisted of the following:

	2005

Federal:		
Current	$	171,000
Deferred		(31,500)
		139,500
State:		
Current		41,000
Deferred		(7,500)
		33,500
TOTAL	$	173,000

Income taxes paid amounted to $68,000 for the six months ended June 30, 2005.

GIANT MOTORSPORTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005
(UNAUDITED)

NOTE L - INCOME TAXES (CONTINUED)

Deferred tax assets (liabilities) consisted of the following:

	2005
Deferred tax assets - current and long-term:	
Goodwill and depreciation	$ 1,600

NOTE M - RELATED PARTY TRANSACTIONS

Related Party Transactions:

Accounts receivable, affiliates consisted of the following:

	2005
Non-interest bearing advances to Marck's Real Estate, LLC., a limited liability company affiliated through common ownership interest to be repaid within one year	$ 65,824

Note receivable officers amounted to $135,099 at June 30, 2005 (See Note E).

Note payable officer amounted to $236,361 at June 30, 3005 (See Note I).

The Company leases its Ohio subsidiary retail facility from a shareholder under a five-year agreement with two five-year renewal terms. Charges to operations amounted to $114,000 for the six months ended June 30, 2005.

NOTE N - COMMON STOCK

The company issued 10,000 shares of common stock each to two individuals who have performed outside services for the Company. The stock was issued on June 16, 2005 when the fair market value of the stock was $0.57 per share.

NOTE O - ACQUISITION OF KINGS MOTOTRSPORTS, INC.

On April 30, 2004, pursuant to an Asset Purchase Agreement (the "Asset Agreement"), dated April 30, 2004 by and among the Company, King's Motorsports, Inc., d/b/a Chicago Cycle ("Chicago Cycle"), Jason Haubner and Jerry Fokas, the two (2) shareholders of Chicago Cycle, the Company acquired (the "Acquisition"), substantially all of the assets of Chicago Cycle (the "Chicago Assets"). This acquisition had been sought primarily to gain a larger market share of the motorcycle industry. Through the acquisition, goodwill in the amount of $1,588,950 was recognized and is being amortized over 15 years for income tax purposes. In consideration for the Chicago Assets and pursuant to the Asset Agreement, the Company (i) assumed certain specified liabilities of Chicago Cycle, and (ii) agreed to pay to Chicago Cycle $2,925,000, as follows:

(a) $1,250,000 at the closing of the Acquisition (the "Initial Payment"), and

(b) $1,675,000 through the issuance to Chicago Cycle of a 6% $1,675,000 aggregate principal amount promissory note (the "Note"). The principal amount of the Note matures as follows:

(i) $500,000 on July 29, 2004
(ii) $250,000 on October 29, 2004, and
(iii) the remaining $925,000, plus accrued but unpaid interest on April 30, 2005.

The Note is secured by a second lien on the Chicago Assets pursuant to a Commercial Security Agreement dated as of April 30, 2004, by and among the Company and Chicago Cycle, and guaranteed pursuant to a Guaranty dated April 30, 2004 by and among Chicago Cycle, the Company, Russell Haehn and Gregory Haehn, the current executive officers and controlling shareholders of the Company (each an "Executive", and, collectively, the "Executives").

To fund the $1,250,000 Initial Payment, the Company pursuant to a Term Note dated March 12, 2004, by and among the Company and The Fifth Third Bancorp Bank (the "Bank") borrowed $1,250,000 (the "Initial Loan") from the Bank. The Initial Loan, which matured on May 31, 2004, was refinanced with the Bank through a term loan, which matures on May 31, 2010 (the "Term Loan"), which bears interest at the rate of prime plus one percent (1%) per annum. The Company's payment obligations under the Term Loan are guaranteed by the Executives pursuant to a Secured Continuing Unlimited dated as of March 12, 2004 by each Executive and the Bank. The Loan is also secured pursuant to a Security Agreement dated March 12, 2004 by and between the Bank and the Company, by a first priority lien on all the assets of the Company (including, but not limited to, the Chicago Assets).

GIANT MOTORSPORTS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2005
(UNAUDITED)

NOTE O - ACQUISITION OF KINGS MOTOTRSPORTS, INC. (Continued)

In connection with the Acquisition and pursuant to the Asset Purchase Agreement, the Company entered into a Non-Competition Agreement ("Non-Competition Agreement"), dated April 30, 2004 with Mr. Haubner, pursuant to which Mr. Haubner agreed to limit his business activities to those not competing with Chicago Cycle until December 31, 2006. In consideration for the Non-Competition Agreement, the Company agreed to pay Mr. Haubner a monthly fee of $20,833. Effective June 15, 2005, Mr. Haubner violated the Agreement. The Company has negotiated a total amount to be assigned to the Non-Competition Agreement of $130,000, which will be paid through the end of 2005.

NOTE P - SUBSEQUENT EVENTS

The Company is in the process of renegotiating the terms and payoff amount with Kings Motorsports, Inc. The balance of the loan, which amounted to $850,000, was due in full on April 30, 2005. No payment has been made on the outstanding balance. Management believes that the terms will be negotiated. As of June 30, 2005, a final settlement has not been reached. However, the repayment terms have been extended to April 30, 2006.

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

Special Note of Caution Regarding Forward-Looking Statements

Certain statements in this report, including statements in the following discussion, may constitute forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. The Company would like to caution readers regarding certain forward-looking statements in this document and in all of its communications to shareholders and others, press releases, securities filings, and all other communications. Statements that are based on management's projections, estimates and assumptions are forward-looking statements. The words "believe," "expect," "anticipate," "intend," "will," and similar expressions generally identify forward-looking statements. While the Company believes in the veracity of all statements made herein, forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Company, are inherently subject to significant business, economic and competitive uncertainties and contingencies and known and unknown risks. Many of the uncertainties and contingencies can affect events and the Company's actual results and could cause its actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

General

Our goal is to become one of the largest dealers of power sports vehicles in the United States through acquisitions and internal growth.

The motorsports industry is highly fragmented with an estimated 4,000 retail stores throughout the United States. We are attempting to capitalize upon the consolidation opportunities available and increase our revenues and income by acquiring additional dealers and improving our performance and profitability.

We plan to maximize the operating and financial performance of our dealerships by achieving certain efficiencies that will enhance internal growth and profitability. By consolidating our corporate and administrative functions, we believe we can reduce overall expenses, simplify dealership management and create economies of scale.

We will specifically target dealers in markets with strong buyer demographics that, due to under-management or under-capitalization, are unable to realize their market share potential and can benefit substantially from our systems and operating strategy.

Together with our two wholly-owned subsidiaries, we own and operate two retail power sports superstores. Our core brands include Suzuki, Yamaha, Honda, Ducati and Kawasaki. Our superstores operate under the names "Andrews Cycles" and "Chicago Cycles." Andrews Cycles is located in Salem, Ohio, had approximately 50 employees at June 30, 2005, and operated from an approximately 35,000 square foot facility on June 30, 2005. Chicago Cycles is located in the Chicago metropolitan area, had approximately 81 employees at June 30, 2005 and operated from an approximately 95,000 square foot facility in Skokie, Illinois.

Overview of Economic Trends

Effects of Increasing Interest Rates

Notwithstanding our increase in sales for the six month period ended June 30, 2005 compared to the same period in 2004, a significant portion of which was due to our acquisition of Chicago Cycles in April 2004, we believe that if interest rates on consumer loans continue to rise, as they have during the last twelve months, this could reasonably be expected to have a material adverse effect on the sales of our power sports products, and more specifically the sales of new vehicles. In 2004, approximately $25 million of the approximately $70.7 million of our power sports sales (35.3%) were financed. Although we did not experience a material reduction in sales through June 30, 2005, the uncertainties created in the consumer financing market as a result of continuing increases in interest rates, can reasonably be expected to have a negative impact on the sale of new motorcycles in the next 12 to 24 months due to the increased costs to our customers.

We believe that consumer interest in lower-priced used motorcycles will significantly rise, as a result of the increased costs of financing. With the acquisition of our Chicago Cycles dealership we have added sales of used motorcycles to our business. From January 1, 2005 through June 30, 2005, approximately $2.9 million of Chicago Cycles' approximately $18.9 million in revenues (15.3%) were generated from sales of used motorcycles. Although our Andrews Cycles dealership has not yet generated material revenues from the sale of used motorcycles, we commenced sales of used motorcycles at Andrews Cycles during the quarter ended June 30, 2005, and intend to substantially increase sales in 2006. We also intend to increase sales of used motorcycles at Chicago Cycles during the remainder of 2005 and thereafter. Although there can be no assurance, we believe that our greater focus on sales of lower-priced used motorcycles, which generally provide larger sales margins, will help make up for any reduction in sales of new motorcycles.

Reduction in Units by Manufacturers

Manufacturers of the motorcycles we sell have recently begun to reduce the number of units they manufacture, normally with respect to some higher-end models, in order to increase the price per unit. Because of our position in the market, we believe that we are generally able to receive a larger allocation of these models than many other dealers. Since this pricing normally results in greater sales margins, reduced unit sales and higher pricing by manufacturers, in the future, could result in a material increase in our revenues and profits, provided that there are a sufficient number of customers willing to pay higher prices for these more limited produced models.

Loan Transactions.

On April 30, 2004, we paid $1,675,000 of the purchase price for Chicago Cycles by issuing to Kings Motorsports a 6% $1,675,000 aggregate principal amount note (the "Note"), which Note initially provided for payment as follows:

(i) $500,000 on July 29, 2004, (ii) $250,000 on October 27, 2004, and (iii) the remaining $925,000, plus accrued but unpaid interest on April 30, 2005. As of June 30, 2005, we had paid $825,000 of the principal amount of the Note. As of June 30, 2005, we attempted to negotiate an extended payment plan for the payment of the outstanding balance, but were unable to enter into any such agreement with the Holder of the Note. At such time, we did not believe that the holder of the Note would declare the Note to be in default, and we intended to pay the outstanding principal and interest when sufficient funds were available. The Note is secured by a second lien on Chicago Cycles' assets, and personally guaranteed by Russell Haehn and Gregory Haehn. Subsequent to June 30, 2005, the date of the financial statements included in this report, we made additional payments of principal and interest on the Note until the remaining amount due and payable was fully paid on October 13, 2005.

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To fund the amount payable at closing for Chicago Cycles, we borrowed $1,250,000 from The Fifth Third Bancorp Bank (the "Bank"), pursuant to a term loan. This loan, which initially matured on May 31, 2004, was refinanced with the Bank through a term loan amortized over a 72 month period, but is payable in full on May 31, 2007, bearing interest at prime plus one percent (7.25% at June 30, 2005). Our payment obligations under this term loan also are personally guaranteed by Russell Haehn and Gregory Haehn. This loan is also secured by a first priority lien on all of our assets (including, without limitation, the Chicago Cycles assets). As of June 30, 2005, the outstanding amount of this term loan, including accrued interest thereon, was $1,093,760.

On April 20, 2004, pursuant to a $500,000 aggregate principal amount promissory note bearing interest at the rate of fourteen (14%) percent per annum (the "Bridge Note"), we received, from a third party, a bridge loan (the "Bridge Loan"). All outstanding principal on the Bridge Note was due on October 15, 2004. To secure the repayment of principal and interest on the Bridge Note, each of Russell Haehn and Gregory Haehn (i) pledged to the lender 150,000 shares (300,000 shares in the aggregate) of common stock owned by each of them, and (ii) guaranteed all of our payment obligations to the lender. As partial consideration for the Bridge Loan, we issued to the lender a five-year warrant to purchase 100,000 shares of common stock, at an exercise price of $2.25 per share. We also granted the lender certain piggyback registration rights with respect to the shares of common stock underlying the warrant. We used the $500,000 Bridge Loan proceeds for working and operating capital. On October 15, 2004, we repaid $250,000 of the principal amount outstanding under the Bridge Loan. Pursuant to a letter agreement entered into with the lender on October 6, 2004, payment of the remaining $250,000 of principal and all accrued interest thereon was extended until January 15, 2005. We paid the lender $2,500 in consideration for the extension. We did not make any additional payments of principal through June 30, 2005, the date of the financial statements filed with this report, however, we continued to make monthly interest payments at the rate of 14% per annum through such date. Subsequent to June 30, 2005, in September 2005, the lender assigned its rights to $50,000 of the $250,000 principal amount then outstanding to an affiliate of the lender, who in turn converted it into shares of Series A Convertible Preferred Stock and certain warrants in a private placement we closed in September 2005 (the "September 2005 Private Placement"). On September 20, 2005, we used net proceeds from our September 2005 Private Placement, in the amount of $203,383.26 to repay the remaining outstanding principal amount of the Bridge Loan and all accrued and unpaid interest thereon.

We also have obtained a revolving line of credit with the Bank, in the maximum amount of $250,000. The line of credit bears interest at the rate of prime plus one percent (7.25% at June 30, 2005), and has no stipulated repayment terms. At June 30, 2005, the aggregate amount of principal and interest outstanding on this credit line was $249,863. This line of credit is secured by a lien on substantially all of our assets.

Anticipated Funding of Operations

The amount required to fund the growth our ongoing operations, as well as the means by which we obtain this funding, will be wholly dependent on the magnitude and timeframes we set for any growth in our business. Based on our current expected growth in the next 12 to 24 months, we expect to fund our ongoing operations as follows:

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Cash Flow from Operations

We intend to significantly increase our cash flow from operations by growing sales within our current business structure and through the acquisition of other power sports dealers. Based on our current business plan, we believe that we will begin to generate sufficient cash flows from operations to fund the growth of our business during the third quarter of 2007. To the extent that the growth of our business involves the acquisition of other dealers, our ability to do so will depend on the availability of the types of financing discussed below.

Bank Financing

We have a revolving credit line with Fifth Third Bancorp in a total available amount of $250,000 of which $249,863 was funded at June 30, 2005. At June 30, 2005 we were exploring other bank financing which would provide us with available funding of at least $1,000,000, and would be on more favorable terms than our revolving credit line with the Bank. Although, we believe that an increased amount of financing should be available to us, as result of our low outstanding indebtedness, we cannot assure you that we will be able to obtain financing in an amount sufficient to meet our needs to grow our business. Certain lending institutions may not be willing to provide debt financing to us, due to the fact that we have granted security interests in virtually all of our inventory and accounts receivable to the manufacturers and other institutions that provide us with floor plan financing for our motorcycles and other power sports equipment. Lenders may refuse to accept subordinated security positions or may require us to accept less favorable terms to provide debt financing, which would make it more difficult for us to replace our current credit line with lines providing more favorable terms and/or increased funding availability.

Equity Financing

At June 30, 2005 we were exploring the acquisition of equity financing in an maximum amount of $2,500,000 for the purpose of funding our working capital needs, as well as the repayment of indebtedness under the outstanding Note to King's Motorsports and the Bridge Loan. We did not on such date have a commitment for any such financing and there was no assurance that we would be able to obtain financing on acceptable terms. Although we did not have plans to raise funds, in addition to the amount described above, through the sale of our equity securities, to directly fund our working capital needs, to the extent that the growth of our business involves the acquisition of other power sports dealers, we would most likely be required to raise additional funds through the sale of common stock or preferred stock to consummate any of these acquisitions. It could be difficult for us to raise funds in amounts and on terms sufficient to fund any of these proposed acquisitions.

Funding of Future Acquisitions

Given our experience in financing the purchase of the Chicago Cycles Assets, we believe that the terms of future acquisitions, to the extent that they involve significant amounts of debt financing, will require substantially longer periods of time for repayment, which we anticipate to be at least 48 months, in order for these acquisitions to be financially viable for us. We intend to give careful consideration to these terms when deciding whether to acquire debt financing in connection with future acquisitions.

Results of Operations.

Six Months Ended June 30, 2005 Compared to Six Months Ended June 30, 2004

	June 30, 2005 (Six Months)	June 30, 2004 (Six Months)	Increase (Decrease)
Revenues	$56,535,378	$33,952,425	$22,582,953
Cost of Sales	$49,940,805	$29,896,872	$20,043,933
Operating Expenses	$5,482,982	$3,117,875	$2,365,107
Operating Income	$1,111,591	$937,678	$173,913
Income b/f Taxes	$724,981	$638,978	$86,003
Net Income	$551,981	$393,378	$58,603

Revenues:

Revenues for the six months ended June 30, 2005 were $56,535,378 representing an increase of $22,582,953 (66%) from the $33,952,425 reported for the six months ended June 30, 2004. Our results were impacted significantly, in a positive manner, by the acquisition of Chicago Cycles on April 30, 2004, and the inclusion of the additional revenues generated by Chicago Cycles during the six months ended June 30, 2005 in the approximate amount of $18,933,690. These results also reflect a generally higher level of sales activities at both of our locations and our move to the larger facility in Chicago. Additionally, our sales increase can also be attributed to our aggressive marketing and advertising campaigns.

Cost of Sales:

Cost of sales for the six months ended June 30, 2005 increased by $20,043,933 (67%) to $49,940,805, during the six months ended June 30, 2005, as compared to $29,896,872 for the same period in 2004. This increase reflects the additional cost of units needed to realize the increase in sales, and is also significantly impacted by the inclusion of the cost of Chicago Cycles' sales beginning in April 30, 2004, which represented approximately $16,639,907 of our cost of sales for the six months ended June 30, 2005.

Operating Expenses:

Selling, general and administrative expenses for the six months ended June 30, 2005 were $5,482,982, an increase of $2,365,107 (76%) over $3,117,875 for the same period in 2004. The aggregate increase in such costs were principally related to (i) additional selling, general and administrative expenses relating to Chicago Cycles, commencing April 30, 2004, including increases of approximately $942,000 in compensation payable to our salespersons and $353,000 in advertising expenses, during the six months ended June 30, 2005 and (ii) an approximate $126,000 increase in legal, accounting, auditing and other professional fees, during the six months ended June 30, 2005, which additional fees were primarily associated with the ongoing compliance and maintenance requirements of being a public company. Net interest expense increased approximately $114,677 to $420,750 in the six months ended June 30, 2005 as compared to $306,073 during the same period in 2004. This increase is primarily due to (i) interest payable by the Company relating to the loans we acquired to pay for Chicago Cycles and the Bridge Loan, and (ii) an increase in interest bearing floor plan inventory, and most significantly the addition of the floor plan inventory of Chicago Cycles, which represented approximately $119,436 of net interest expense for the six months ended June 30, 2005.

Operating Income:

We had income from operations before other income (expense) of $1,111,591 for the six month period ended June 30, 2005, as compared to income from operations of $937,678 for the same period in 2004. This increase in income from operations during the six months ended June 30, 2005 as compared to the same period in 2004, is a result of greater sales volume and an increase in gross margin on our sales. Depreciation and amortization was approximately $210,000 for the six months ended June 30, 2005, as compared to $60,000 for the same period in 2004.

Income before Taxes:

We had income before provision for taxes, for the six months ended June 30, 2005 of $724,981, as compared with income before provision for taxes of $638,978 for the same period in 2004. This increase in income before taxes during the six months ended June 30, 2005 as compared to the same period in 2004, is a result of our greater sales volume and an increase in gross margin on our sales. We had taxes of $173,000 for the six months ended June 30, 2005, as compared to taxes of $245,600 for the six months ended June 30, 2004. Income taxes during the current period were reduced due in part to a net operating loss carryforward from the first quarter of 2005.

Net Income:

We had a net income of $551,981 for the six months ended June 30, 2005, as compared to net income of $393,378 for the same period in 2004. This increase in net income during the six months ended June 30, 2005 as compared to the same period in 2004, is a result of our greater sales volume, an increase in gross margin on sales, and the reduced income taxes for the current period.

Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004

	June 30, 2005 (Three Months)	June 30, 2004 (Three Months)	Increase (Decrease)
Revenues	$35,817,371	$22,752,262	$13,065,109
Cost of Sales	$31,213,014	$20,186,009	$11,027,005
Operating Expenses	$3,100,827	$2,013,650	$1,087,177
Operating Income	$1,503,530	$552,603	$950,927
Income b/f Taxes	$1,263,191	$341,719	$921,472
Net Income	$1,090,191	$206,119	$884,072

Revenues:

Revenues for the three months ended June 30, 2005 were $35,817,371 representing an increase of $13,065,109 (57%) from the $22,752,262 reported for the three months ended June 30, 2004. Our results were impacted in a positive manner by a generally higher level of sales activities at both of our locations and our move to the larger facility in Chicago. Additionally, our sales increase can also be attributed to our aggressive marketing and advertising campaigns.

Cost of Sales:

Cost of sales for the three months ended June 30, 2005 increased by $11,027,005 (54%) to $31,213,014, during the three months ended June 30, 2005, as compared to $20,186,009 for the same period in 2004. This increase reflects the additional cost of units needed to realize the increase in sales, and is also significantly impacted by the additional units purchased as a result of our move to the larger facility in Chicago.

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Operating Expenses:

Selling, general and administrative expenses for the three months ended June 30, 2005 were $3,100,827, an increase of $1,087,177 (54%) over $2,013,650 for the same period in 2004. The aggregate increase in such costs were principally related to (i) additional selling, general and administrative expenses relating to Chicago Cycles, commencing April 30, 2004, including increases of approximately $557,000 in compensation payable to our salespersons and $103,000 in advertising expenses, during the three months ended June 30, 2005 and (ii) an approximate $26,000 increase in legal, accounting, auditing and other professional fees, during the three months ended June 30, 2005, which additional fees were primarily associated with the ongoing compliance and maintenance requirements of being a public company. Net interest expense increased approximately $29,550 to $246,909 in the three months ended June 30, 2005 as compared to $217,359 during the same period in 2004. This increase is primarily due to (i) interest payable by the Company relating to the loans we acquired to pay for Chicago Cycles and the Bridge Loan, and (ii) an increase in interest bearing floor plan inventory, and most significantly the addition of the floor plan inventory of Chicago Cycles, which represented approximately $81,000 of net interest expense for the three months ended June 30, 2005.

Operating Income:

We had income from operations before other income (expense) of $1,503,530 for the three month period ended June 30, 2005, as compared to income from operations of $552,603 for the same period in 2004. This increase in income from operations during the three months ended June 30, 2005 as compared to the same period in 2004, is a result of greater sales volume and an increase in gross margin on our sales. Depreciation and amortization was approximately $91,500 for the three months ended June 30, 2005, as compared to $39,500 for the same period in 2004.

Income before Taxes:

We had income before provision for taxes, for the three months ended June 30, 2005 of $1,263,191, as compared with income before provision for taxes of $341,719 for the same period in 2004. This increase in income before taxes during the three months ended June 30, 2005 as compared to the same period in 2004, is a result of our greater sales volume and an increase in gross margin on our sales. We had taxes of $173,000 for the three months ended June 30, 2005, as compared to taxes of $135,600 for the three months ended June 30, 2004. This increase in taxes reflects greater income during the three months ended June 30, 2005. Income taxes during the current period were reduced due in part to a net operating loss carryforward from the first quarter of 2005.

Net Income:

We had a net income of $1,090,191 for the three months ended June 30, 2005, as compared to net income of $206,119 for the same period in 2004. This increase in net income during the three months ended June 30, 2005 as compared to the same period in 2004, is a result of our greater sales volume, an increase in gross margin on sales, and the reduced income taxes for the current period.

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Liquidity and Capital Resources.

Our primary source of liquidity has been cash generated by operations and borrowings under various credit facilities. At June 30, 2005, we had $469,588 in cash and cash equivalents, compared to $1,862,187 at December 31, 2004. Until required for operations, our policy is to invest excess cash in bank deposits and money market funds. Net working capital at June 30, 2005 was ($669,204) compared to ($399,303) at December 31, 2004. The Company's negative net working capital at June 30, 2005, was mostly attributable to its financing of the Chicago Cycles acquisition through short-term debt, as well as an increase in floor plan financing, as a result of the additional inventory acquired in the Chicago Cycles acquisition.

The Company receives floor plan financing from five different motorcycle manufacturers for whom the Company sells the manufacturers' products. The Company uses such floor plan financing to assist it in financing and carrying the Company's inventory necessary to achieve the Company's sales goals. Such manufacturer's collateral includes all unit inventory plus a general lien on all assets of Andrews Cycles and Chicago Cycles.

The Company has acquired the loans described under the heading Loan Transactions above. Although the Company believes that its current borrowing facilities together with its cash generated from operations, will be adequate to meet its working capital requirements for its current operating levels, the Company may in the future attempt to raise additional financing through the sale of its debt and/or equity securities.

Inventory Management.

We believe that successful inventory management is the most important factor in determining our profitability. In the power sports business, and particularly as it relates to the sale of motorcycles, there is normally a limited timeframe for the sale of current year models. For example, if we are unable to sell a significant portion of our 2005 models before the 2006 models are released, it could be very difficult for us to sell our remaining inventory of 2005 models. Therefore, our goal is to limit sales of carryover products (i.e. products that remain in inventory after the release of new models) to no more than 10% of our total sales each year. This is accomplished by making all of our purchasing decisions based on sales information for the prior year and then utilizing aggressive sales and marketing techniques during the early part of a model year in order to assure the timely sale of our products.

Additionally, by limiting our carryover to 10% of total sales, we also are able to benefit from cash incentives provided by manufacturers with respect to most of these products. These cash incentives minimize our need to reduce prices for these models, as our customers are provided with cash reimbursement directly from the manufacturers. Similarly, we are able to use the cash incentives provided on our carryover products to promote new models, as the incentives generate greater showroom traffic.

Seasonality

Our two main products - motorcycles and all terrain vehicles ("ATVs") are subject to seasonality. Traditionally, the motorcycle season begins in late February or early March and runs until September. In September/October, the sale of ATVs increases while motorcycle sales decrease.

Impact of Inflation.

General inflation in the economy has driven the operating expenses of many businesses higher, and, accordingly we have experienced increased salaries and higher prices for supplies, goods and services. We continuously seek methods of reducing costs and streamlining operations while maximizing efficiency through improved internal operating procedures and controls. While we are subject to inflation as described above, our management believes that inflation currently does not have a material effect on our operating results, but there can be no assurance that this will continue to be so in the future.

Critical Accounting Policy and Estimates.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, as promulgated by the PCAOB. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, fixed assets, inventory, accounts receivable, accrued expenses, financing operations, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Set forth below are the policies that we have identified as critical to our business operations and the understanding of our results of operations or that involve significant estimates. For detailed discussion of other significant accounting policies see Note A, Summary of Significant Accounting Policies, of Notes to Consolidated Financial Statements, contained elsewhere in this report.

Intangibles and Long-lived Assets - Goodwill is tested for impairment on an annual basis, or more frequently if events or circumstances indicate that impairment may have occurred. The Company is subject to financial statement risk to the extent that intangible assets become impaired due to decreases in the fair market value of the related underlying business.

We estimate the depreciable lives of our property and equipment, including any leasehold improvements, and review them on an on-going basis. The Company believes that the long-lived assets are appropriately valued. However, the assumptions and estimates used may change, and the Company may be required to record impairment to reduce the carrying value of these assets.

Revenue Recognition: Vehicle Sales - The Company records revenue when vehicles are delivered and title has passed to the customer, when vehicle service or repair work is performed and when parts are delivered. Sales promotions that are offered to customers are accounted for as a reduction to the sales price at the time of sale. Incentives, rebates and holdbacks offered by manufacturers directly to the Company are recognized at the time of sale if they are vehicle specific, or as earned in accordance with the manufacturer program rules and are recorded as a reduction of cost of merchandise sold.

Revenue Recognition: Finance, Insurance and Extended Service Revenues - The Company arranges financing for customers through various financial institutions and receives a commission from the lender equal to the difference between the interest rates charged to customers and the interest rates set by the financing institution. The Company also receives commissions from the sale of various third party insurance products to customers and extended service contracts. These commissions are recorded as revenue at the time the customer enters into the contract. The Company is not the obligor under any of these contracts. In the case of finance contracts, a customer may prepay or fail to pay their contract, thereby terminating the contract. Customers may also terminate extended service contracts, which are fully paid at purchase, and become eligible for refunds of unused premiums. In these circumstances, a portion of the commissions the Company receives may be charged back based on the relevant terms of the contracts. The revenue the Company records relating to commissions is net of an estimate of the ultimate amount of chargebacks the Company will be required to pay. Such estimates of chargeback experience are based on our historical chargeback expense arising from similar contracts. The Company also acts as the warrantor on certain extended service contracts and defers the revenue and recognizes it over the life of the contract on a straight-line basis.

Off-Balance Sheet Arrangements.

We have no off-balance sheet arrangements.

Contractual Obligations

We have entered into various contractual obligations, which may be summarized as follows:

Contractual Obligations	Payments due by perio		
	Total	Less than 1 year	1-3 years
Long-Term Debt Obligations	$ 1,106,076	$ 458,320	$ 647,756
Capital (Finance) Lease Obligations	$ 7,608,583	$ 156,367	$ 1,982,668
Operating Lease Obligations	--	--	--
Purchase Obligations	As Needed		
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under the GAAP of the primary financial statements	--	--	--
Total	$ 8,714,659	$ 614,687	$ 2,630,424

Item 3. Quantitative and Qualitative Disclosure about Market Risk

The Company is exposed to market risk in the ordinary course of its business. These risks are primarily related to changes in short-term interest rates. The potential impact of the Company's exposure to these risks is presented below:

Interest Rates

Floor Plan Financing

We purchase new and used vehicle inventory by utilizing floor plan financing provided by lending institutions, as well as manufacturers of certain of the products we sell, including Kawasaki Motor Finance Company and America Honda Finance. We had outstanding indebtedness under floor plan notes of $19,380,306 and $17,788,706, at June 30, 2005 and December 31, 2004, respectively. Interest rates in connection with our floor plan financing

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generally fluctuate based on the prime rate, the type of product being financed and the length of time that such product remains on the floor plan. During the first six months of 2005, interest rates on our floor plan financing ranged from a low of 5.64% to a high of 10.9%. Since we are dependent to a significant extent on our ability to finance the purchase of inventory, increases in the prime rate of interest could have a significant negative impact on our income from operations, as a result of the greater interest we will be required to pay with respect to our floor plan financing. While increases in the prime rate did not have a significant impact on our floor plan financing in 2004 and during the first six months of 2005, continued increases would, in all likelihood, result in a reduction in our income from operations during the remainder of 2005 and thereafter. Although we cannot determine the precise impact of rate increases, we believe that we would begin to experience a material negative impact on our financial condition if the prime rate were to increase to 10% from its rate at June 30, 2005 of 6.25%.

Line of Credit

We also have an existing revolving credit line with Fifth Third Bancorp, the interest rate of which fluctuates with the prime rate, at prime plus one percent. Since the aggregate outstanding indebtedness of this line of credit was $249,863 and $250,000 at June 30, 2005 and December 31, 2004, respectively, we do not believe that fluctuations in the prime rate under our credit line will have more than a slight negative impact on our income from operations.

Hedging Activities

We normally invest any available cash in short-term investments and do not currently have any investment strategies to hedge against increases in interest rates. Additionally, although we do not currently intend to commence any such hedging investments in the future, in the event that we determine that there is a substantial risk that increases in interest rates would have a material negative impact on our business, we may consider such hedging strategies at that time.

Foreign Exchange Rates

We are not currently, and have not in the past, been subject to fluctuations in exchange rates of foreign currencies against the U.S. Dollar, since virtually all of the vehicles, accessories and parts that we purchase in connection with our business are purchased from the U.S. subsidiaries of Japanese manufacturers in U.S. Dollars. Additionally, all of our product sales are made in the United States in U.S. Dollars. In the event that our business model changes in the future, and we either purchase products in foreign currencies such as Japanese Yen, or sell products outside of the United States, for which we accept payment in foreign currencies, we could become subject to exchange rate fluctuations at that time.

Item 4. Controls and Procedures

Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report (June 30, 2005). Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. Disclosure controls and procedures mean our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II

OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

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

Not applicable.

Item 3. Defaults Upon Senior Securities.

Not applicable.

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

Not applicable.

Item 5. Other Information

None

Item 6. Exhibits

(a) Exhibits (filed herewith)

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)).

31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a)).

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)).

32.2 Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(b)).

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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.

GIANT MOTORSPORTS, INC.

Date: January 23, 2006 By: /s/ Russell A. Haehn

Name: Russell A. Haehn
Title: Chairman of the Board of Directors,
Chief Executive Officer and Secretary
(Principal Executive Officer)

Date: January 23, 2006 By: /s/ Gregory A. Haehn

Name: Gregory A. Haehn
Title: President, Chief Operating Officer,
Treasurer and a Director
(Principal Financial and Accounting
Officer)