BLUE HOLDINGS, INC.
Form 10QSB
August 14, 2006

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

FORM 10-QSB

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

FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2006

COMMISSION FILE NUMBER: 000-33297

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

NEVADA	88-0450923
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

5804 E. SLAUSON AVE., COMMERCE, CA 90040
(Address of principal executive offices)

(323) 725-5555
(Issuer's telephone number)

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

YES |X| NO |_|

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

As of August 1, 2006, 26,057,200 shares of the registrant's common stock were outstanding.

Transitional Small Business Disclosure Format (Check One):

YES |_| NO |X|

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PART I

ITEM 1. FINANCIAL STATEMENTS

BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2006 AND DECEMBER 31, 2005

ASSETS	June 30, 2006 (Unaudited)	December 31, 2005
Current assets:		
Cash	$ 107,564	$ 228,127
Due from factor, net of reserves of $130,430 and $96,849, respectively	763,379	693,474
Accounts receivable, net of reserves of $529,659 and $484,421, respectively:		
- Purchased by factor with recourse	9,095,574	4,287,163
- Others	188,417	2,504
Due from related parties	--	15,974
Inventories	13,275,707	9,925,162
Deferred income taxes	861,514	492,574
Prepaid expenses and other current assets	535,098	351,919
Total current assets	24,827,253	15,996,897

Deferred income taxes	1,667,266	1,671,135
Deferred acquisition costs	236,619	--
Property and equipment, less accumulated depreciation	486,294	198,927
Total assets	$27,217,432	$17,866,959
LIABILITIES AND EQUITY		
Current liabilities:		
Bank overdraft	$ --	$ 616,020
Accounts payable	3,641,751	2,911,598
Short-term borrowings	8,007,105	4,583,936
Due to related parties	1,038,337	372,311
Advances from majority shareholder	2,519,106	96,875
Income taxes payable	826,523	650,468
Accrued expenses and other current liabilities	524,155	599,166
Total current liabilities	16,556,977	9,830,374
Stockholders' equity:		
Common stock $0.001 par value, 75,000,000 shares authorized, 26,057,200 shares issued and outstanding	26,057	26,057
Additional paid-in capital	5,225,950	4,996,752
Retained earnings	5,408,448	3,013,776
Total stockholders' equity	10,660,455	8,036,585
Total liabilities and stockholders' equity	$27,217,432	$17,866,959

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	THREE MONTHS ENDED JUNE 30,		SIX MONT JUNE
	2006	2005	2006
Net sales	$15,180,652	$ 5,681,614	$27,058,531
Cost of goods sold	7,752,299	2,081,363	13,680,915

Gross profit	7,428,353	3,600,251	13,377,616
Selling, distribution & administrative expenses	4,322,680	1,956,741	8,923,087
Income before interest expense, expenses relating to exchange transaction and provision for income taxes	3,105,673	1,643,510	4,454,529
Interest expense	214,449	7,588	385,762
Expenses relating to exchange transaction	--	477,617	--
Income before provision for income taxes	2,891,224	1,158,305	4,068,767
Provision for income taxes	1,176,728	135,484	1,674,095
Net income	$ 1,714,496	$ 1,022,821	$ 2,394,672
Earnings per common share, basic and diluted	$ 0.07	$ 0.04	$ 0.09
Weighted average shares outstanding, basic and diluted	26,057,200	26,057,200	26,057,200

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2006

	Shares Issued		Additional		
	Number	Par Value 0.001	Paid In Capital	Retained Earnings	Total
Balance, January 1, 2006	26,057,200	$ 26,057	$ 4,996,752	$ 3,013,776	$ 8,036,5
Fair value of options granted	--	--	229,198	--	229,1
Net Income for the period ...	--	--	--	2,394,672	2,394,6
Balance, June 30, 2006	26,057,200	$ 26,057	$ 5,225,950	$ 5,408,448	$10,660,4

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash flows from operating activities:		
Net Income	$ 2,394,672	$ 1,488,870
Adjustments to reconcile net income to cash used in operating activities:		
Depreciation and amortization	77,470	4,833
Stock based exchange transaction expense	--	177,617
Fair value of stock options granted	229,198	--
Changes in assets and liabilities:		
Accounts receivable	(4,994,324)	(192,596)
Due from factor	(69,905)	(42,585)
Inventories	(3,350,545)	(4,814,376)
Due from related parties	15,974	(251,383)
Deferred income taxes	(365,071)	(197,580)
Due to related parties	666,026	1,091,599
Prepaid expenses and other current assets	(183,178)	(173,511)
Income tax payable	176,055	332,264
Bank overdraft	(616,020)	--
Accounts payable	730,153	1,650,703
Other current liabilities	(75,012)	68,463
Net cash used in operating activities	(5,364,507)	(857,682)
Cash flows from investing activities:		
Purchase of equipment	(364,837)	(38,697)
Deferred acquisition costs	(236,619)	--
Net cash used in investing activities	(601,456)	(38,697)
Cash flows from financing activities:		
Short-term borrowings	3,423,169	--
Additional paid in capital	--	686,200
Advances from majority shareholder	2,422,231	157,083
Net cash provided by financing activities	5,845,400	843,283
Net decrease in cash	(120,563)	(53,096)
Cash at beginning of period	228,127	84,635
CASH AT END OF PERIOD	$ 107,564	$ 31,539

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for income tax	$ 1,855,200	$ 2,500
Cash paid for interest	$ 385,762	$ 7,588
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING AND INVESTING ACTIVITIES:		
Inventory contributed by a stockholder at its historical cost	$ --	$ 1,200,000
Value of common stock issued for finders fee relating to exchange transaction	$ --	$ 177,617

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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BLUE HOLDINGS INC. (FORMERLY KNOWNS AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES

NOTES TO CONDENSED FINANCIAL STATEMENTS AS OF JUNE 30, 2006
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION, ORGANIZATION AND NATURE OF OPERATIONS

(a) BASIS OF PRESENTATION:

The interim condensed consolidated financial statements are unaudited, but in the opinion of management of the Company, contain all adjustments, which include normal recurring adjustments, necessary to present fairly the financial position at June 30, 2006, the results of operations and cash flows for the three and six months ended June 30, 2006 and 2005. The consolidated balance sheet as of December 31, 2005 is derived from the Company's audited financial statements.

Certain information and footnote disclosures normally included in financial statements that have been presented in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission with respect to interim financial statements, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission.

The Company's results of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2006.

The condensed consolidated financial statements include the operations of Blue Holdings, Inc. and its wholly-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

(b) ORGANIZATION:

Blue Holdings, Inc. (a Nevada corporation formerly known as Marine Jet Technology Corp.) was incorporated in the State of Nevada on February 9, 2000. On April 14, 2005, Blue Holdings entered into an Exchange Agreement with Antik Denim, LLC ("Antik"). At the closing of the transactions contemplated by the Exchange Agreement, which occurred on April 29, 2005, Blue Holdings acquired all of the outstanding membership interests of Antik (the "Interests") from the members of Antik, and the members contributed all of their Interests to Blue Holdings. In exchange, Blue Holdings issued to the members 843,027 shares of Series A Convertible Preferred Stock, par value $0.001 per share, of Blue Holdings ("Preferred Shares"), which, on June 7, 2005, as a result of a change to Marine Jet Technology Corp.'s name to Blue Holdings, Inc. and a 1 for 29 reverse stock split, were converted into 24,447,783 shares of Blue Holding's common stock on a post-reverse stock split basis.

As such, immediately following the closing and upon the conversion of the Preferred Shares, the Antik members and Elizabeth Guez, our former Chief Operating Officer and wife of Paul Guez, owned approximately 95.8% of the total issued and outstanding common stock of Blue Holdings on a fully-diluted basis. Following completion of the exchange transaction, Antik became a wholly-owned subsidiary of Blue Holdings. The acquisition was accounted for as a reverse merger (recapitalization) in the accompanying financial statements with Antik deemed to be the accounting acquirer and Blue Holdings deemed to be the legal acquirer. As such, the financial statements herein include those of Antik since September 13, 2004 (the date of its inception). All assets and liabilities of Marine Jet Technology Corp. were assumed by the major shareholder of Blue Holdings, Inc. prior to the exchange transaction and were inconsequential to the merged companies.

On June 7, 2005, Marine Jet Technology Corp. changed its name to Blue Holdings, Inc., and increased its authorized number of shares of common stock to 75,000,000.

On October 31, 2005, the Company entered into an exchange agreement with Taverniti So Jeans, LLC, a California limited liability company ("Taverniti"), and the members of Taverniti (the "Taverniti Members"). Under the exchange agreement, the Company acquired all of the outstanding membership interests of Taverniti (the "Taverniti Interests") from the Taverniti Members, and the Taverniti Members contributed all of their Taverniti Interests to the Company. In exchange, the Company issued to the Taverniti Members, on a pro rata basis, an aggregate of 500,000 shares of the Common Stock, par value $0.001 per share, of the Company, and paid to the Taverniti Members, on a pro rata basis, an aggregate of Seven Hundred Fifty Thousand Dollars ($750,000). At the closing of the exchange transaction, Taverniti became a wholly-owned subsidiary of the Company. Paul Guez, the Company's Chairman, Chief Executive Officer, President and majority shareholder, was and remains the sole manager and was a member of Taverniti. Elizabeth Guez, Paul Guez's spouse and the Company's former Chief Operating Officer, was also a member of Taverniti. Two other members of Mr. and Mrs. Guez's family, including Gregory Abbou, the President of Taverniti, were the remaining members of Taverniti. The transaction was accounted for as a combination of entities under common control. As such, the financial statements herein have been presented to include the operations of Taverniti since September 13, 2004, the date of its inception, and the $750,000 payment was considered as a deemed distribution to the members of Taverniti upon the closing of the combination.

(c) NATURE OF OPERATIONS:

The Company operates exclusively in the wholesale apparel industry. The Company designs, develops, markets and distributes high fashion jeans and accessories under the brand names "Antik Denim", "Taverniti So Jeans", and "Yanuk". The Company's products currently include jeans, jackets, belts, purses and T-shirts. The Company currently sells its products in the United States, Canada, Japan and the European Union directly to department stores and boutiques and through distribution arrangements in certain foreign jurisdictions. The Company is headquartered in Commerce, California and maintains showrooms in New York and Los Angeles. The Company opened a retail store in Los Angeles during August 2005, whose operations are not yet significant to the consolidated operations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) USE OF ESTIMATES:

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

(b) REVENUE RECOGNITION:

Revenue is recognized when merchandise has been shipped against a customer's written purchase order, the risk of ownership has passed, selling price has been fixed and determined and collectibility is reasonably assured either through payment received, or fulfillment of all the terms and conditions of the particular purchase order. Revenue is recorded net of estimated returns, charge backs and markdowns based on management's estimates and historical experience.

(c) ADVERTISING:

Advertising costs are expensed as of the first date the advertisements take place. Advertising expenses included in selling expenses approximated $69,897 and $576,062 for the three and six months ended June 30, 2006, respectively, compared to $36,236 and $70,166 for the three and six months ended June 30, 2005, respectively.

(d) CONCENTRATION OF CREDIT RISK:

Financial instruments, which potentially expose the Company to concentration of credit risk, consist primarily of cash, trade accounts receivable, and amounts due from our factor. With respect to trade accounts receivable at June 30, 2006, two customers comprised approximately 24% and 17% of our total receivables. The Company extends unsecured credit to its customers in the normal course of business.

The Company's cash balances on deposit with banks are guaranteed by the Federal Deposit Insurance Corporation up to $100,000. The Company may be exposed to risk for the amounts of funds held in one bank in excess of the insurance limit. In assessing the risk, the Company's policy is to maintain cash balances with high quality financial institutions.

The Company's products are primarily sold to department stores and specialty retail stores. These customers can be significantly affected by changes in economic, competitive or other factors. The Company makes substantial sales to a relatively few, large customers. In order to minimize the risk of loss, the Company assigns certain amounts of domestic accounts receivable to a factor without recourse or requires letters of credit from its customers prior to the shipment of goods. For non-factored receivables, account-monitoring procedures are utilized to minimize the risk of loss. Collateral is generally not required.

(e) STOCK-BASED COMPENSATION:

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), established a fair value method of accounting for stock-based compensation plans and for transactions in which an entity acquires goods or services from non-employees in exchange for equity instruments. SFAS No. 123 was amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -Transition and Disclosure", which required companies to disclose in interim financial statements the pro forma effect on net income (loss) and net income (loss) per common share of the estimated fair market value of stock options or warrants issued to employees. Through December 31, 2005, the Company accounted for stock-based compensation utilizing the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), with pro forma disclosures of net income (loss) as if the fair value method had been applied. Accordingly, compensation cost for stock options was measured as the excess, if any, of the fair market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock.

As the exercise price of stock options and warrants issued to employees was not less than the fair market value of the Company's common stock on the date of grant, and in accordance with accounting for such options utilizing the intrinsic value method, there was no related compensation expense recorded in the Company's 2005 consolidated financial statements. The fair value of stock options and warrants issued to officers, directors and employees at not less than fair market value of the Company's common stock on the date of grant was estimated using the Black-Scholes option-pricing model, and the effect on the Company's results of operations was shown in a proforma disclosure as if such stock options and warrants had been accounted for pursuant to SFAS No. 123.

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004), "Share Based Payment" ("SFAS No. 123R"), a revision to SFAS No. 123, "Accounting for Stock-Based Compensation". SFAS No. 123R superseded APB No. 25 and amended SFAS No. 95, "Statement of Cash Flows". Effective January 1, 2006, SFAS No. 123R requires that the Company measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards, with the cost to be recognized as compensation expense in the Company's financial statements over the vesting period of the awards.

Accordingly, the Company recognizes compensation cost for equity-based compensation for all new or modified grants issued after December 31, 2005. In addition, commencing January 1, 2006, the Company recognizes the unvested portion of the grant date fair value of awards issued prior to adoption of SFAS No. 123R based on the fair values previously calculated for disclosure purposes over the remaining vesting period of the outstanding stock options and warrants.

The Company adopted SFAS No. 123R effective January 1, 2006, and is using the modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123R for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123R for all awards granted to employees prior to the effective date of SFAS No. 123R that remain unvested on the effective date.

The total stock based compensation expense for the three and six months ended June 30, 2006 was $114,701 and $229,198, respectively. As of June 30, 2006, the unamortized value of these option awards was $1,173,958, which will be amortized as compensation cost in future periods as the options vest. The fair value of options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the periods indicated:

	Six Months Ended June 30, 2006
Dividend yield	--
Risk-free interest rate	4.50%
Expected volatility	46.01%
Expected life of options	5 years

During the three and six months ended June 30, 2005, the Company did not grant any options to purchase shares of its common stock, nor were there any options vesting during that period. Accordingly, no proforma information for June 30, 2005 is required.

(f) NET INCOME PER SHARE

Statement of Financial Accounting Standards No. 128, "Earnings per Share", requires presentation of basic earnings per share ("Basic EPS") and diluted earnings per share ("Diluted EPS"). Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution, using the treasury stock method, that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company. In computing diluted earnings per share, the treasury stock method assumes that outstanding options and warrants are exercised and the proceeds are used to purchase common stock at the average market price during the period. Options and warrants will have a dilutive effect under the treasury stock method only when the average market price of the common stock during the period exceeds the exercise price of the options and warrants.

At June 30, 2006 and 2005, potentially dilutive securities consisted of outstanding common stock options to acquire 685,000 and 0 shares, respectively.

These potentially dilutive securities were not included in the calculation of income per share for the quarter ended June 30, 2006 as the exercise price of the options exceeded the average market price of the shares. Accordingly, basic earnings per share for the three and six months ended June 30, 2006 and 2005, are the same as diluted earnings per share for each such period.

(g) SHIPPING AND HANDLING COSTS:

Freight charges are included in selling, distribution and administrative expenses in the statement of operations and approximated $156,145 and $324,791 for the three and six months ended June 30, 2006, respectively, as compared with $37,278 and $79,224 for the same period last year.

(h) MAJOR SUPPLIERS:

We purchase our fabric, thread and other raw materials from various industry suppliers within the United States and abroad. We do not currently have any long-term agreements in place for the supply of our fabric, thread or other raw materials. The fabric, thread and other raw materials used by us are available from a large number of suppliers worldwide. During fiscal 2006, three suppliers accounted for more than 10% of our purchases. Purchases from these suppliers were 19.7%, 14.9% and 10.2% for the three months ended June 30, 2006, and 13.9%, 11% and 10.9% for six months ended June 30, 2006, respectively.

We presently outsource all of our manufacturing needs to contract vendors using just in time ordering. We use several contract vendors for our manufacturing needs with the bulk of purchases (approximately 70%) currently made from domestic manufacturers. It has been our strategy to increase the use of contract manufacturers in Mexico and the Far East. We do not rely on any one manufacturer and we believe additional manufacturing capacity is available to meet our current and planned needs. We maintain rigorous quality control systems for both raw and finished goods. We will continue to outsource the majority of our production capacity to maintain low fixed expenses. We will add additional contractors as required to meet our needs. During the three months ended June 30, 2006, three sub-contractors accounted for 17.2%, 15.5% and 14.1% and three contractors accounted for 22.7%, 17.3% and 11.2%, of our manufacturing during the six months ended June 30, 2006. One of these sub-contractors, which principally provided manufacturing services to Taverniti, is Azteca Production International Inc., a company co-owned by Paul Guez, our Chairman and Chief Executive Officer.

(i) MAJOR CUSTOMERS:

During the three months ended June 30, 2006, two customers accounted for more than 10% of the Company's sales. Sales to those customers were 15% and 11%, respectively. During the six months ended June 30, 2006, one customer accounted for 16% of our total sales.

International sales accounted for approximately 23% and 29% of sales in the three and six months ended June 30, 2006, respectively. Geographically, Japan has become one of our major growth areas. During the three and six months ended June 30, 2006, Japan accounted for 13.2% and 18.5%, respectively, of our total sales compared to 8.5% and 6%, respectively, in the prior year periods.

(j) RECLASSIFICATIONS:

Certain prior year balance sheet items have been reclassified to conform to the current period presentation.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 is a replacement of APB Opinion No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements - (an Amendment of APB Opinion No. 28)" and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 establishes retrospective application as the required method for reporting a change in accounting principle, and provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. Retrospective application is the application of a different accounting principle to a prior accounting period as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS No. 154 also addresses the reporting of the correction of an error by restating previously issued financial statements. The Company adopted the provisions of SFAS No. 154 effective January 1, 2006.

On September 22, 2005, the Securities and Exchange Commission ("SEC") issued rules to delay by one-year the required reporting by management on internal controls over financial reporting for non-accelerated filers. The new SEC rule extends the compliance date for such registrants to fiscal years ending on or after July 15, 2007. Accordingly, the Company qualifies for the deferral until its year ending December 31, 2007 to comply with the internal control reporting requirements.

NOTE 3 - DUE FROM FACTOR

We use a factor for working capital and credit administration purposes. Under the various factoring agreements entered into separately by Blue Holdings, Antik Denim, LLC and Taverniti So Jeans, LLC, the factor purchases all the trade accounts receivable assigned by the Company and its subsidiaries and assumes all credit risk with respect to those accounts approved by it.

The factor agreements provide that we can borrow an amount up to 90% of the value of our purchased customer invoices, less a reserve of 10% of unpaid accounts purchased and 100% of all such accounts which are disputed. The factor agreements provide for automatic renewal after July 24, 2006 subject to 120 days' termination notice from any party. The factor also makes available to all three companies a combined line of credit up to the lesser of $2.4 million (increased from $1.5 million effective as of January 1, 2006) and 50% of the value of eligible raw materials and finished goods. The increase in this line of credit - from $1.5 million to $2.4 million - became effective as of January 1, 2006. As of June 30, 2006, the Company drew down $2.4 million of this credit line against inventory.

As of June 30, 2006, the factor holds $3,073,753 of accounts receivable purchased from us on a without recourse basis and has made advances to us of $2,179,944 against those receivables, resulting in a net balance amount Due from Factor of $763,379, net of reserves of $130,430, as of June 30, 2006. The Company has accounted for the sale of receivables to the factor in accordance with SFAS No.140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

As of June 30, 2006, the factor also held $9,095,574 of accounts receivable that were subject to recourse, against which the Company has provided reserves of $430,097 and as of June 30, 2006, the Company received advances totaling $8,007,105 against such receivables and against eligible inventory. The Company has included the $9,095,574 in accounts receivable, and has reflected the $8,007,105 as short term borrowings on the accompanying balance sheet. The factor commission against such receivables is 0.4% and interest is charged at the rate of 1% over the factor's prime lending rate per annum.

Before January 1, 2006, the factor commission on receivables purchased on a without recourse basis was 0.8% of the customer invoice amount for terms up to 90 days, plus one quarter of one percent (.25%) for each additional thirty-day term. Effective January 1, 2006, the factor commission is 0.75% if the aggregate amount of approved invoices is below $10 million per annum, 0.70% if between $10 million and $20 million and 0.65% if between $20 million and $30 million. The Company is contingently liable to the factor for merchandise disputes, customer claims and the like on receivables sold to the factor. To the extent that the Company draws funds prior to the deemed collection date of the accounts receivable sold to the factor, interest is charged at the rate of 1% over the factor's prime lending rate per annum. Factor advances are collateralized by the non-factored accounts receivable, inventories and the personal guarantees of Paul Guez, our Chairman, Chief Executive Officer, President and majority shareholder, and the living trust of Paul and Elizabeth Guez.

NOTE 4 - INVENTORIES

Inventories at June 30, 2006 and December 31, 2005 are summarized as follows:

	June 30, 2006 (Unaudited)	December 31, 2005
Raw Materials	$ 4,138,926	$ 3,850,916
Work-in-Process	4,641,884	2,842,531
Finished Goods	4,494,897	3,231,715
TOTAL	$13,275,707	$ 9,925,162

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2006 and December 31, 2005 are summarized as follows:

	June 30, 2006 (Unaudited)	December 31, 2005
Furniture	$ 12,973	$ 11,217
Leasehold Improvements	46,626	44,600
Computer Equipment	523,715	162,659

	583,314	218,476
Less: Accumulated depreciation and amortization	(97,020)	(19,549)
	$ 486,294	$ 198,927

Depreciation expenses for the three months ended June 30, 2006 and 2005 were $51,450 and $2,226, respectively and for the six months ended June 30, 2006 and 2005 were $77,470 and $3,679, respectively.

NOTE 6 - RELATED PARTY TRANSACTIONS

The Company purchased fabric at cost from Blue Concept, LLC which is owned by Paul Guez, the Company's Chairman and Chief Executive Officer, for $10,092 and $251,658 during the three and six months ended June 30, 2006, respectively, and $476,786 and $997,281, respectively, for the same period last year.

Azteca Production International Inc. is one of our contractors in Mexico and is co-owned by Paul Guez, our majority stockholder. During the three and six months ended June 30, 2006, we paid them sewing and other sub-contracting charges in the amount of $551,712 and $1,370,514, respectively, and $279,990 for six months ended June 30, 2005. Azteca principally provided manufacturing services to Taverniti.

Since January 1, 2006, the Company has leased its facility at Commerce, California from Azteca Production International Inc. as a sub-tenant and is paying it $19,030 per month.

On July 5, 2005 the Company entered into a ten-year license agreement with Yanuk Jeans, LLC, effective as of July 1, 2005. Under the terms of the agreement, the Company became the exclusive licensor for the design, development, manufacture, sale, marketing and distribution of the "Yanuk" brand products to the wholesale and retail trade. The Company pays to Yanuk Jeans, LLC a royalty of six percent of all net sales of the licensed products and a guaranteed minimum royalty on an annual basis. In addition, during the term of the license agreement, the Company has the option to purchase from Yanuk Jeans, LLC the property licensed under the agreement. The royalties for the three and six months ended June 30, 2006 paid or payable to Yanuk Jeans, LLC totaled $68,312 and $182,931, respectively. Yanuk Jeans, LLC is solely owned by Paul Guez, our majority stockholder.

Paul Guez and the living trust of Paul and Elizabeth Guez have guaranteed all advances and ledger debt due to the Company's factor.

Taverniti is the exclusive licensee for the design, development, manufacture, sale, marketing and distribution of the "Taverniti So Jeans" trademark in the denim and knit sports wear categories for men and women. It is paying royalties to Taverniti Holdings, LLC in the ranges of 5-8 percent depending on the net sales of the licensed products pursuant to a license agreement with Taverniti Holdings, LLC. Taverniti Holdings, LLC is jointly owned by Paul Guez (60%) and Jimmy Taverniti (40%), the designer of the products for the brand, and Mr. Guez is the sole manager. The license agreement was signed in May 2004 and expires on December 31, 2015. Royalties paid or payable for the three and six months ended June 30, 2006 amounted to $ 305,744 and $656,526, respectively.

NOTE 7 - DUE TO/FROM RELATED PARTIES:

The related parties are the Company's majority shareholder (who is also the Chairman, Chief Executive Officer and President of the Company) and limited liability companies that are co-owned by the majority shareholder. These amounts are all unsecured and non-interest bearing. All non-trade related advances from related parties have been repaid. Trade-related outstanding items follow regular payment terms as invoiced. As of June 30, 2006, total trade-related due to related parties amounted to $1,038,337.

From time to time, the Company's majority shareholder, Mr. Paul Guez, made advances to the Company to support its working capital needs. These advances were non-interest bearing and unsecured, with no formal terms of repayment. As of June 30, 2006, the balance of these advances was $2,519,106. Subsequent to June 30, 2006, Mr. Guez converted the advances to a line of credit in an agreement with the Company. The line of credit allows the Company to borrow from him up to a maximum of $3 million at an interest rate of 6% per annum. The Company may repay the advances in full or in part at any time until the credit line expires on December 31, 2007.

NOTE 8 -- INCOME TAX:

The Company accounts for income taxes and the related accounts under the liability method. Deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted rates expected to be in effect during the year in which the basis differences reverse.

The Company's provision for income taxes was $1,674,095 for the six months ended June 30, 2006 compared to $136,284 for the same period of the prior year. For the four months ended April 29, 2005 the income earned and related Federal and State income tax obligations for the period of Antik Denim, LLC were passed through to its previous members. For the six months ended June 30, 2005 the income earned and related Federal and State income tax obligations for the period of Taverniti So Jeans, LLC were passed through to its previous members. The Company recorded no provision for such taxes.

The provision for income taxes consists of the following for six months ended June 30, 2006:

	2006
Current	
Federal	$ 1,464,225
State	436,649
Deferred	
Federal	(188,416)
State	(38,363)
Provision for income tax expense	$ 1,674,095

A reconciliation of the statutory federal income tax rate to the effective tax rate is as follows for six months ended June 30, 2006:

	2006
Statutory federal rate	34.0%
State taxes, net of federal benefit	6.5
Income not taxed at the Company level	0
Permanent differences	0
Other	0.6
Effective tax rate	41.1%

NOTE 9 - STOCK OPTIONS:

Under the Company's 2005 Stock Incentive Plan (the "Company Plan"), the Company may grant qualified and nonqualified stock options and stock purchase rights to selected employees. The Company reserved 2,500,000 shares of common stock for issuance under the Company Plan. Options to purchase 270,000 shares of common stock were granted in 2006. No options to purchase shares of common stock were exercised or terminated in 2006.

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At June 30, 2006, options outstanding are as follows:

	Number of options	Weighted average exercise price
Balance at January 1, 2006	427,000	$ 7.18
Granted	270,000	$ 5.20
Exercised	--	--
Cancelled	(12,000)	$ 5.20
Balance at June 30, 2006	685,000	$ 6.44

Additional information regarding options outstanding as of June 30, 2006 is as follows:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
Exercise Price	Number Outstanding	Weighted average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8.10	62,000	8.93	$8.10	22,000	$8.10
$7.40	300,000	9.11	$7.40	100,000	$7.40
$5.30	65,000	9.12	$5.30	25,000	$5.30
$5.20	258,000	9.50	$5.20	--	--
$5.20 - $8.10	685,000	9.24	$6.44	147,000	$7.15

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NOTE 10 - AGREEMENT AND PLAN OF MERGER:

On June 19, 2006, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with LR Acquisition Corporation, a District of Columbia corporation and its wholly-owned subsidiary ("LR Acquisition"), Long Rap, Inc., a District of Columbia corporation ("Long Rap"), and the three stockholders of Long Rap, pursuant to which Long Rap, Inc. will merge (the "Merger") with and into LR Acquisition with LR Acquisition surviving the Merger as our wholly-owned subsidiary and changing its name to Long Rap, Inc. as of the effective time of the Merger. Each stockholder of Long Rap will receive, as merger consideration (collectively, the "Merger Consideration") for each share of Long Rap's common stock held, (1) an amount of cash equal to $16,000,000 divided by the outstanding shares of the common stock of Long Rap on a fully-diluted basis, and (2) that number of shares obtained by dividing (A) $16,000,000 divided by the average closing price of a share of our common stock, as quoted on the NASDAQ Capital Market (or such other market, exchange or quotation system in which such security is then quoted), over the ten (10) trading days immediately preceding the effective time of the Merger by (B) the number of shares of the common stock of Long Rap on a fully-diluted basis.

The consummation of the Merger is conditioned on, among other customary requirements, the registration of the shares of our common stock to be issued as Merger Consideration to holders of outstanding shares of the capital stock of Long Rap, our completion of due diligence of Long Rap, the delivery by Long Rap of the audited financial statements of Long Rap, and our obtaining adequate financing to fund the cash portion of the Merger Consideration payable to the stockholders of Long Rap under the Merger Agreement and to obtain adequate working capital to fund both our and Long Rap's operations post-merger.

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

FORWARD-LOOKING STATEMENTS

Statements made in this Form 10-QSB (the "Quarterly Report") that are not historical or current facts are "forward-looking statements" made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the "Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company intends that such forward-looking statements be subject to the safe harbors for such statements. The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Any forward-looking statements represent management's best judgment as to what may occur in the future. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-QSB will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company disclaims any obligation subsequently to revise any forward-looking statements to reflect events or circumstances after the date of such statement or to reflect the occurrence of anticipated or unanticipated events.

The words "we," "us," "our," and the "Company," refer to Blue Holdings, Inc. The words or phrases "may," "will," "expect," "believe," "anticipate," "estimate," "approximate," or "continue," "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions, or the negative thereof, are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including but not limited to: (a) our failure to implement our business plan within the time period we originally planned to accomplish; and (b) other risks that are discussed in this Form 10-QSB or included in our previous filings with the Securities and Exchange Commission ("SEC").

DESCRIPTION OF BUSINESS

OVERVIEW

We design, manufacture and market high-end fashion jeans, apparel and accessories under the principal brand names ANTIK DENIM, TAVERNITI SO JEANS and YANUK. Our products include jeans, jackets, belts, purses and T-shirts. We sell premium denim products and accessories in high-end department stores and fashion boutiques that cater to fashion conscious consumers. Our products are currently sold in the United States, Canada, Japan and the European Union directly to department stores and boutiques, including Bloomingdales, Nordstrom, Macy's, Saks and Fred Segal, and through distribution arrangements in a number of countries abroad.

We operate in the high-end fashion denim industry. Our current competitors are companies that market such brands as Joe's Jeans, True Religion, Seven For All Mankind and Citizens of Humanity.

Our goal is to build a broad and diversified portfolio of brands selling premium denim products and accessories across a range of retail price points through wholesale and retail distribution channels.

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CORPORATE BACKGROUND

We were incorporated in the State of Nevada on February 9, 2000 under the name Marine Jet Technology Corp. From our inception through January 2005, we focused on developing and marketing boat propulsion technology. Between January and February 2005, we entered into separate transactions whereby, among other matters, Keating Reverse Merger Fund, LLC ("KRM Fund"), an existing shareholder of the Company, agreed to purchase a substantial majority of our outstanding common stock, and Intellijet Marine, Inc., a company formed by our former majority shareholder and principal executive officer and director, Jeff P. Jordan, acquired all of our boat propulsion technology assets and assumed all of our then existing liabilities.

Between February 4, 2005 and April 29, 2005, we existed as a public "shell" company with nominal assets.

SIGNIFICANT DEVELOPMENTS

On June 19, 2006, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with LR Acquisition Corporation, a District of Columbia corporation and our wholly-owned subsidiary ("LR Acquisition"), Long Rap, Inc., a District of Columbia corporation ("Long Rap"), and the three stockholders of Long Rap, pursuant to which Long Rap will merge (the "Merger") with and into LR Acquisition with LR Acquisition surviving the Merger as our wholly-owned subsidiary and changing its name to Long Rap, Inc. as of the effective time of the Merger. Each stockholder of Long Rap will receive, as merger consideration (collectively, the "Merger Consideration") for each shares of Long Rap's common stock held, (1) an amount of cash equal to $16,000,000 divided by the outstanding shares of the common stock of Long Rap on a fully-diluted basis, and (2) that number of shares obtained by dividing (A) $16,000,000 divided by the average closing price of a share of our common stock, as quoted on the NASDAQ Capital Market (or such other market, exchange or quotation system in which such security is then quoted), over the ten (10) trading days immediately preceding the effective time of the Merger by (B) the number of shares of the common stock of Long Rap on a fully-diluted basis.

The consummation of the Merger is conditioned on, among other customary requirements, the registration of the shares of our common stock to be issued as Merger Consideration to holders of outstanding shares of the capital stock of Long Rap, our completion of due diligence of Long Rap, the delivery by Long Rap of the audited financial statements of Long Rap, and our obtaining adequate financing to fund the cash portion of the Merger Consideration payable to the stockholders of Long Rap under the Merger Agreement and to obtain adequate working capital to fund both our and Long Rap's operations post-merger.

In light of the number of conditions required to be satisfied to accomplish the close of the Merger, we cannot assure you that the Merger will be completed or that it will be completed within the time frame contemplated by the Merger Agreement (on or before September 30, 2006).

OUR PRODUCTS AND BRANDS

We offer multiple brands of apparel in the premium and better denim segments. As a result of a license agreement with Yanuk Jeans, LLC and the acquisition of Taverniti So Jeans LLC, we currently market our products under the ANTIK DENIM, TAVERNITI SO JEANS and YANUK brands. Our products are sold in the United States and abroad to upscale retailers and boutiques. We currently sell men's and women's styles and have launched a children's line for both ANTIK DENIM and TAVERNITI SO JEANS. In addition, Antik Denim is a party to a license agreement with Titan Industries, Inc. that provides Titan with an exclusive right to use the ANTIK DENIM brand for the sale of men's and women's footwear in the United States, Canada and Mexico, and a right of first refusal for similar use of the brand in Europe and South America. The footwear line was launched in July 2006.

Our products are made from high quality fabrics milled in the United States, Japan, Italy and Spain and are processed with cutting-edge treatments and finishes. Our concepts and designs, including Antik Denim's distinct vintage western flair, and our extraordinary fit, embellishments, patent pending pockets, unique finishes, hand stitching, embroidery detail and other attention to detail and quality give our products a competitive advantage in the high-end fashion denim and accessories market.

Our jeans are available in multiple combinations of washes, fabrics and finishes, with as many as 20 different combinations of colors, fabrics and finishes on certain styles. We typically introduce new versions of our major styles each month in different colors, washes and finishes. Although our denim products have accounted for the substantial majority of our total sales, our product lines include knits, woven tops and accessories, the sales of which we anticipate will continue to increase.

Each of our brands has an independent design team striving to develop a distinct look and feel to the products based on an overall design philosophy. Product mix between denim and non-denim products and retail price points vary by brand.

ANTIK DENIM. The designers of ANTIK DENIM are Philippe Naouri and Alexandre Caugant, both of whom have significant experience in the denim industry, in both selling and designing vintage inspired offerings. Their principal design philosophy is based on vintage western styling featuring a very unique and distinctive back pocket.

TAVERNITI SO JEANS. The designer of the TAVERNITI SO JEANS line is Jimmy Taverniti, well known as an Italian couture designer with significant experience as a denim designer. The principal design philosophy is sportswear driven looks with vintage and rock and roll styling.

YANUK. The designer of the YANUK line is Benjamin Taverniti, the son of Jimmy Taverniti. The principal design philosophy is focused on clean looks with little or no embroidery, and attention to detail and fit.

DESIGN AND DEVELOPMENT

We use independent design teams to develop distinct and innovative designs for each of our brands. Mr. Guez participates in design efforts and provides significant input with respect to the development of new lines and brands. We do not have in place any formal design and development plan at this time. However, since our inception in 2004, we have allocated significant resources to our design and development activities. In the three and six months ended June 30, 2006, our design and development expenses were approximately $0.44 million and $0.90 million, respectively.

MANUFACTURING AND SOURCING

We purchase our fabric, thread and other raw materials from various industry suppliers within the United States and abroad. We do not currently have any long-term agreements in place for the supply of our fabric, thread or other raw materials. The fabric, thread and other raw materials used by us are available from a large number of suppliers worldwide. During fiscal 2006, three suppliers accounted for more than 10% of our purchases. Purchases from these suppliers were 19.7%, 14.9% and 10.2% for the three months ended June 30, 2006, and 13.9%, 11% and 10.9% for six months ended June 30, 2006, respectively.

We presently outsource all of our manufacturing needs to contract vendors using just in time ordering. We use several contract vendors for our manufacturing needs with the bulk of purchases (approximately 70%) currently made from domestic manufacturers. It has been our strategy to increase the use of contract manufacturers in Mexico and the Far East. We do not rely on any one manufacturer and we believe additional manufacturing capacity is available to meet our current and planned needs. We maintain rigorous quality control systems for both raw and finished goods. We will continue to outsource the majority of our production capacity to maintain low fixed expenses. We will add additional contractors as required to meet our needs. During the three months ended June 30, 2006, three sub-contractors accounted for 17.2%, 15.5% and 14.1% and three contractors accounted for 22.7%, 17.3% and 11.2%, of our manufacturing during the six months ended June 30, 2006. One of these sub-contractors, which principally provided manufacturing services to Taverniti, is Azteca Production International Inc., a company co-owned by Paul Guez, our Chairman and Chief Executive Officer.

We believe we can realize significant cost savings in product manufacturing because of our strong relationships with a diverse group of U.S. and international contract manufacturers established by our management team through their prior experience in the apparel industry. In addition, the increase in production volume as a result of our multi-brand strategy will give us economies of scale to achieve further cost savings.

MARKETING, DISTRIBUTION AND SALES

We market, distribute and sell our products in the United States and internationally in a number of other countries such as Canada, Belgium, France, Germany, Sweden, Italy, Korea and Japan.

Our products are sold in the United States to department stores and boutiques such as Saks, Neiman Marcus, Nordstrom, Bloomingdales, Atrium, Fred Segal, Intermix, Kitson and Bendel, as well as smaller boutiques throughout the country. Our products are sold internationally to department stores and boutiques such as Lane Crawford in Hong Kong, Harrods and Harvey Nichols in the United Kingdom, Barneys and Isetan in Japan, Galleries Lafayette in France, and Holt Renfrew in Canada.

We market and distribute our products by participating in industry trade shows, as well as through our show rooms in Los Angeles and New York. We maintain distributor relationships in the United Kingdom, France, Germany, Sweden, Greece, Belgium, Italy, Mexico and Japan. Except for Mexico, Japan and Canada, we currently have no exclusive or long term distribution agreements with any party covering any territory, and do not depend on any single distributor to distribute our products. Our distributors often, but not always, purchase products from us at a discount for resale to their customers in their respective territories. Our distributors warehouse our products at their expense and they ship to and collect payment from their customers directly.

TRADEMARKS AND OTHER INTELLECTUAL PROPERTY

Antik Denim, is the holder of trademark applications for the "Antique Denim" and "Antik Denim" marks in the United States and various other foreign jurisdictions. Antik Denim also owns several proprietary concepts and designs, including pending trademark and patent applications on its pocket designs. Yanuk Jeans, LLC, from whom we hold exclusive licenses to exploit products based on the YANUK and U brands, is the holder of several United States and foreign trademarks.

Taverniti So Jeans, LLC is the exclusive licensee for the design, development, manufacture, sale, marketing and distribution of the TAVERNITI SO JEANS trademark in the denim and knit sportswear categories for men and women. It is paying royalties to Taverniti Holdings LLC in the range of 5-8 percent depending on the net sales of the licensed products pursuant to a license agreement with Taverniti Holdings LLC. Taverniti Holdings LLC is jointly owned by Paul Guez (60%) and Jimmy Taverniti (40%), the designer of the products for the brand, and Mr. Guez is the sole manager. The license agreement was signed in May 2004 and expires on December 31, 2015.

We anticipate continuing to expand the ANTIK DENIM, TAVERNITI SO JEANS, YANUK, and U brands, and their proprietary trademarks and designs, worldwide. We also anticipate taking, and have already taken, coordinated action to curb an increase in the domestic and international counterfeiting of Antik Denim's stylized pocket design and other intellectual property, including, without limitation, through litigation if necessary.

GOVERNMENT REGULATION AND SUPERVISION

We benefit from certain international treaties and regulations, such as the North American Free Trade Agreement (NAFTA), which allows for the duty and quota free entry into the United States of certain qualifying merchandise. International trade agreements and embargoes by entities such as the World Trade Organization also can affect our business, although their impact has historically been favorable.

We have implemented various programs and procedures, including unannounced inspections, to ensure that all of the apparel manufacturers with whom we contract fully comply with employment and safety laws and regulations governing their place of operation.

EMPLOYEES

As of August 1, 2006, we had 120 employees, not including our three executive officers, Paul Guez, our Chairman, Chief Executive Officer and President, and Patrick Chow, our Chief Financial Officer and Secretary, and Gregory Abbou, President of Taverniti So Jeans, LLC. Mr. Guez leads our product development, marketing and sales, and Mr. Chow oversees all financial aspects of our business. Our employees are not unionized and except for agreements with Messrs. Naouri and Caugant, who comprise the design team for our ANTIK DENIM brand, no employees are subject to existing employment agreements.

FACILITIES

PRINCIPAL EXECUTIVE OFFICES

Our principal executive offices are located at 5804 East Slauson Avenue, Commerce, California 90040. Our telephone number is (323) 725-5555.

DESCRIPTION OF PROPERTY

Our offices and warehouse are located in Commerce, California. It is from this facility that we conduct all of our executive and administrative functions, and ship products to our customers. We also maintain showrooms in both Los Angeles and New York City. Since the beginning of this year, we have been paying for the use of these showrooms based on our actual use. The rentals at the Commerce facility and the showrooms are shared by several companies. The entire Commerce facility consists of approximately 270,222 sq. ft. We now utilize approximately 73,000 sq. ft. of the Commerce, California facility. On April 27, 2006, we entered into a sublease agreement with Azteca Production International, Inc., which is co-owned by Paul Guez, and we contracted to pay $19,030 per month, retroactive to January 1, 2006, for the use of the Commerce facility.

On August 27, 2005, we opened a retail store in Los Angeles and assumed all the obligations of a 10-year property lease which was previously signed by

Blue Concept, LLC in April, 2005. We are paying $22,510 per month for the lease of the shop space.

LIQUIDITY AND CAPITAL RESOURCES

For the six months ended June 30, 2006, net cash used in operating activities was $(5.4 million). The deficit was primarily due to an increase of $3.4 million in inventory and $4.9 million in accounts receivables and was offset by an increase in accounts payable of $0.7 million and an increase in due to related parties of $0.7 million. Net cash provided by financing activities included $3.4 million from short-term borrowings and $2.4 million advances from the majority shareholder. The Company utilized $0.6 million in investing activities which consisted of $0.4 million to purchase new equipment and $0.2 million to finance deferred acquisition costs.

We use a factor, FTC Commercial Corp., for working capital and credit administration purposes. Under the various factoring agreements entered into separately by Blue Holdings, Antik Denim, LLC and Taverniti So Jeans, LLC, the factor purchases all the trade accounts receivable assigned by us and assumes all credit risk with respect to those accounts approved by it.

The factor agreements provide that we can obtain an amount up to 90% of the value of our purchased customer invoices, less a reserve of 10% of unpaid accounts purchased and 100% of all accounts that are disputed. The factor agreements, provide for the automatic renewal of the agreements after July24, 2006, subject to 120 days' termination notice from any party. We receive amounts against purchased customer invoices on a recourse basis or a non-recourse basis under these agreements. Amounts received against customer invoices purchased on a recourse basis are classified as "short-term borrowings" and amounts received against customer invoices purchased on a non-recourse basis are reflected on a net basis against such receivables purchased by the factor in "due from factor" on the balance sheets included in our financial statements.

In addition, the factor also makes available to all three companies a combined line of credit up to the lesser of $2.4 million (increased from $1.5 million effective as of January 1, 2006) and 50% of the value of eligible raw materials and finished goods. The increase in this line of credit - from $1.5 million to $2.4 million - became effective as of January 1, 2006. As of June 30, 2006, we drew down $2.4 million of this credit line.

Before January 1, 2006, the factor commission was 0.8% of the customer invoice amount for terms up to 90 days, plus one quarter of one percent (.25%) for each additional thirty-day term. Effective January 1, 2006, the factor commission is 0.75% if the aggregate amount of approved invoices is below $10 million per annum, and will be reduced by 5 basis points for each increase by $10 million in the aggregate amount of approved invoices. The Company is contingently liable to the factor for merchandise disputes, customer claims and the like on receivables sold to the factor. To the extent that the Company draws funds prior to the deemed collection date of the accounts receivable sold to the factor, interest is charged at the rate of 1% over the factor's prime lending rate per annum. Factor advances and ledger debt are collateralized by the non-factored accounts receivable, inventories and the personal guarantees of Paul Guez, our Chairman, Chief Executive Officer, President and majority shareholder, and the living trust of Paul and Elizabeth Guez.

The factor also purchased customer invoices on a "with recourse" basis. These advances and the advances against inventory were classified as "short-term borrowings". These short-term borrowings amounted to $8 million as of June 30, 2006. The factor commission is 0.4% for receivables purchased subject to recourse. Receivables subject to recourse approximated $9.2 million net of reserves as of June 30, 2006.

From time to time, the Company's majority shareholder, Mr. Paul Guez, made advances to the Company to support its working capital needs. These advances were non-interest bearing . As of June 30, 2006, the balance of these advances was $2,519,106. Subsequent to June 30, 2006, Mr. Guez converted the advances to a line of credit in an agreement with the Company. The line of credit allows the Company to borrow from him up to a maximum of $3 million at an annual interest rate of 6%. The Company may repay the advances in full or in part at any time until the credit line expires on December 31, 2007.

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Our primary source of liquidity is expected to be cash flow generated from operations, cash and cash equivalents currently on hand, and working capital attainable through our factor. We may seek to finance future capital needs through various means and channels, such as issuance of long-term debt or sale of equity securities.

OFF-BALANCE SHEET ARRANGEMENTS

Financial instruments that potentially subject the Company to off-balance sheet risk consist of factored accounts receivable. The Company sells certain of its trade accounts receivable to a factor and is contingently liable to the factor for merchandise disputes and other customer claims.

As of June 30, 2006, the factor holds $3,073,753 of accounts receivable purchased from us on a without recourse basis and has made advances to us of $2,179,944 against those receivables, resulting in a net balance amount Due from Factor of $763,379, net of reserves of $130,430, as of June 30, 2006. The Company has accounted for the sale of receivables to the factor in accordance with SFAS No.140, "Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities".

RESULTS OF OPERATIONS

The acquisition of Antik Denim, LLC ("Antik") in 2005 was accounted for as a reverse merger (recapitalization) in the accompanying financial statements with Antik deemed to be the accounting acquirer, and Blue Holdings deemed to be the legal acquirer. The exchange transaction with Taverniti So Jeans, LLC was accounted for as a combination of entities under common control, and its 2005 results were combined with those of Antik and Blue Holdings, Inc., respectively. Accordingly, our results of operations before the completion of these transactions, including our operating results before April 29, 2005 (when we completed the acquisition of Antik), reflect the operations of Antik and Taverniti.

THREE MONTHS ENDED JUNE 30, 2006 VS. 2005

Net sales increased from $5.7 million for the three months ended June 30, 2005 to $15.1 million for the three months ended June 30, 2006. The increase was due to the continued growth and acceptance of our brands and products.

Gross profit for the three months ended June 30, 2006 increased to $7.4 million, or 48.9% of net sales from $ 3.6 million or 63 % of net sales in the three months ended June 30, 2005. We expect our gross margin to be maintained at approximately 50% in the future.

Selling, distribution and administrative expenses for the three months ended June 30, 2006 totaled $4.3 million or 28% of net sales compared with $2 million or 35% of net sales for the three months ended June 30, 2005. The principal components during the three months ended June 30, 2006 were payroll of $1.7 million (compared to $0.5 million in the second quarter last year), professional fees of $0.3 million (compared to $0.43 million in the second quarter of 2005), royalties of $0.37 million ($0.15 million in same period of 2005) and stock-based compensation of $0.11 million (none in 2005). The reduction in the rate of overhead expenses came mainly from increased sales and better utilization of our fixed costs.

Net Income after provision for taxes in the second quarter of 2006 was $1.7 million or 11 % of net sales compared to $1 million or 17 % of net sales in the second quarter of 2005. Basic and diluted earnings per share increased to $0.07 from $0.04 in the same period of last year. For the three months ended June 30, 2006, the Company provided $1.18 million for income tax compared to $0.14 million in the same period last year. During the three months ended June 30, 2005, the income (loss) and related Federal and State income tax obligations were passed through to the previous members of Taverniti So Jeans, LLC. These tax obligations for Antik Denim, LLC before April 29, 2005 were also passed through to its previous members. The Company only recorded provisions for income taxes on the income of Antik Denim, LLC between April 30 and June 30 in the second quarter of 2005.

SIX MONTHS ENDED JUNE 30, 2006 VS. 2005

Net sales increased from $10.7 million for the six months ended June 30, 2005 to $27.1 million for the six months ended June 30, 2006. We expect our brands to continue to grow steadily both domestically and internationally.

Gross profit for the six months ended June 30, 2006 increased to $13.4 million, or 49.4% of net sales from $5.3 million or 49.2% of net sales in the six months ended June 30, 2005. We expect our gross margin to be maintained at approximately 50% in the future.

Selling, distribution and administrative expenses for the six months ended June 30, 2006 totaled $8.9 million compared with $3.2 million for the six months ended June 30, 2005. The principal components during the six months ended June 30, 2006 were payroll of $3.5 million (compared to $0.62 million in the first six months of last year), advertising and trade show expenses of $0.71 million ($0.14 million in the same period of 2005), travel expenses of $0.35 million ($0.12 million in the same period of 2005), royalties of $0.83 million ($0.15 million in 2005) and stock-based compensation of $0.23 million (none in 2005).

Net Income after provision for taxes in the first six months of 2006 was $2.39 million or 8.9 % of net sales compared to $1.49 million or 13.9 % of net sales in the first six months of 2005. Basic and diluted earnings per share increased to $0.09 from $0.06 in the same period of last year. For the six months ended June 30, 2006, the Company provided $1.7 million for income tax compared to $0.14 million in the same period last year. During the six months ended June 30, 2005, the income (loss) and related Federal and State income tax obligations for the period were passed through to the previous members of Taverniti So Jeans, LLC. These tax obligations for Antik Denim, LLC between January 1 and April 29, 2005 were also passed through to its previous members.

The Company only recorded provisions for income taxes on the income of Antik Denim, LLC between April 30 and June 30 in the first six months of 2005.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues. On an ongoing basis, we evaluate estimates, including those related to returns, discounts, bad debts, inventories, intangible assets, income taxes, contingencies and litigations. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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REVENUE

Revenue is recognized when merchandise has been shipped against a customer's written purchase order, the risk of ownership has passed, selling price has been fixed and determined and collectibility is reasonably assured either through payment received, or fulfillment of all the terms and conditions of the particular purchase order. Revenue is recorded net of estimated returns, charge backs and markdowns based on management's estimates and historical experience.

ACCOUNTS RECEIVABLE

Trade accounts receivable are recorded at invoiced amounts, less amounts accrued for returns, discounts and allowances. An allowance is provided for specific customer accounts where collection is doubtful and for inherent risk in our ability to ultimately collect those receivables. There is no off-balance sheet credit exposure related to customer receivables.

INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined on the first-in, first-out ("FIFO") method.

INCOME TAXES

We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" Under SFAS No. 109, income taxes are recognized for the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets are recognized for the future tax consequences of transactions that have been recognized in our financial statements or tax returns. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

RECENT ACCOUNTING PRONOUNCEMENTS AND DEVELOPMENTS

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS No. 154"). SFAS No. 154 is a replacement of APB Opinion No. 20, "Accounting Changes" and SFAS

No. 3, "Reporting Accounting Changes in Interim Financial Statements - (an Amendment of APB Opinion No. 28)" and provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS No. 154 establishes retrospective application as the required method for reporting a change in accounting principle, and provides guidance for determining whether retrospective application of a change in accounting principle is impracticable and for reporting a change when retrospective application is impracticable. Retrospective application is the application of a different accounting principle to a prior accounting period as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS No. 154 also addresses the reporting of the correction of an error by restating previously issued financial statements. The Company adopted the provisions of SFAS No. 154 effective January 1, 2006.

On September 22, 2005, the Securities and Exchange Commission ("SEC") issued rules to delay by one-year the required reporting by management on internal controls over financial reporting for non-accelerated filers. The new SEC rule extends the compliance date for such registrants to fiscal years ending on or after July 15, 2007. Accordingly, the Company qualifies for the deferral until its year ending December 31, 2007 to comply with the internal control reporting requirements.

RISK FACTORS

YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING RISK FACTORS AND ALL OTHER INFORMATION CONTAINED IN THIS DESCRIPTION BEFORE PURCHASING SHARES OF OUR COMMON STOCK OR OTHER SECURITIES. INVESTING IN BLUE HOLDINGS' COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. THE RISKS AND UNCERTAINTIES DESCRIBED BELOW ARE NOT THE ONLY ONES FACING US. ADDITIONAL RISKS AND UNCERTAINTIES THAT WE ARE NOT AWARE OF, OR THAT WE CURRENTLY DEEM IMMATERIAL, ALSO MAY BECOME IMPORTANT FACTORS THAT AFFECT US. IF ANY OF THE FOLLOWING EVENTS OR OUTCOMES ACTUALLY OCCURS, OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION WOULD LIKELY SUFFER. AS A RESULT, THE TRADING PRICE OF OUR COMMON STOCK COULD DECLINE, AND YOU MAY LOSE ALL OR PART OF THE MONEY YOU PAID TO PURCHASE OUR COMMON STOCK.

RISKS RELATED TO OUR BUSINESS

WE HAVE A LIMITED OPERATING HISTORY, MAKING IT DIFFICULT TO EVALUATE WHETHER WE WILL OPERATE PROFITABLY.

Antik and Taverniti were formed in September 2004 to design, develop, manufacture, market, distribute and sell high end fashion jeans, apparel and accessories. As a result, we do not have a meaningful historical record of sales and revenues nor an established business track record. While our management believes that we have an opportunity to be successful in the high end fashion jean market, there can be no assurance that we will be successful in accomplishing our business initiatives, or that we will achieve any significant level of revenues, or continue to recognize net income, from the sale of our products.

Unanticipated problems, expenses and delays are frequently encountered in increasing production and sales and developing new products, especially in the current stage of our business. Our ability to continue to successfully develop, produce and sell our products and to generate significant operating revenues will depend on our ability to, among other matters:

- successfully market, distribute and sell our products or enter into agreements with third parties to perform these functions on our behalf; and

- obtain the financing required to implement our business plan.

Given our limited operating history, our license agreements with Yanuk Jeans, LLC, our acquisition of Taverniti, and our lack of long-term sales history and other sources of revenue, there can be no assurance that we will be able to achieve any of our goals and develop a sufficiently large customer base to be profitable.

WE MAY REQUIRE ADDITIONAL CAPITAL IN THE FUTURE.

We may not be able to fund our future growth or react to competitive pressures if we lack sufficient funds. Currently, management believes we have sufficient cash on hand and cash available through our factor to fund existing operations for the foreseeable future. However, in the future, we may need to raise additional funds through equity or debt financings or collaborative relationships, including in the event that we lose our relationship with our factor. This additional funding may not be available or, if available, it may not be available on commercially reasonable terms. In addition, any additional funding may result in significant dilution to existing shareholders. If adequate funds are not available on commercially acceptable terms, we may be required to curtail our operations or obtain funds through collaborative partners that may require us to release material rights to our products.

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FAILURE TO MANAGE OUR GROWTH AND EXPANSION COULD IMPAIR OUR BUSINESS.

Management believes that we are poised for significant growth in 2006. However, no assurance can be given that we will be successful in maintaining or increasing our sales in the future. Any future growth in sales will require additional working capital and may place a significant strain on our management, management information systems, inventory management, sourcing capability, distribution facilities and receivables management. Any disruption in our order processing, sourcing or distribution systems could cause orders to be shipped late, and under industry practices, retailers generally can cancel orders or refuse to accept goods due to late shipment. Such cancellations and returns would result in a reduction in revenue, increased administrative and shipping costs and a further burden on our distribution facilities.

Additionally, we intend from time to time to open and/or license retail stores focusing on the ANTIK DENIM, YANUK, TAVERNITI SO JEANS and other brands, and to acquire and/or license other businesses and brands, as applicable, as we deem appropriate. If we are unable to adequately manage our retail operations, or to properly integrate any business or brands we acquire and/or license, this could adversely affect our results of operation and financial condition.

WE CURRENTLY OWN OR LICENSE, AND OPERATE, A LIMITED NUMBER OF PRINCIPAL BRANDS. IF WE ARE UNSUCCESSFUL IN MARKETING AND DISTRIBUTING THOSE BRANDS OR IN EXECUTING OUR OTHER STRATEGIES, OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION WILL BE ADVERSELY AFFECTED.

While our goal is to employ a multi-brand strategy that will ultimately diversify the fashion and other risks associated with reliance on a limited product line, we currently operate, directly and through our wholly-owned subsidiaries Antik and Taverniti, a limited number of principal brands, most of which are being operated pursuant to very recent license or acquisition agreements. If we are unable to successfully market and distribute our branded products, or if the recent popularity of premium denim brands decreases, or if we are unable to execute on our multi-brand strategy to acquire and/or license additional companies and/or brands, as applicable, identified by our management from time to time, our results of operations and financial condition will be adversely affected.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY.

Management expects that we will experience substantial variations in our net sales and operating results from quarter to quarter. We believe that the factors which influence this variability of quarterly results include:

- the timing of our introduction of new product lines;
- the level of consumer acceptance of each new product line;
- general economic and industry conditions that affect consumer spending and retailer purchasing;
- the availability of manufacturing capacity;
- the seasonality of the markets in which we participate;
- the timing of trade shows;
- the product mix of customer orders;
- the timing of the placement or cancellation of customer orders;
- the weather;
- transportation delays;
- quotas and other regulatory matters;
- the occurrence of charge backs in excess of reserves; and
- the timing of expenditures in anticipation of increased sales and actions of competitors.

As a result of fluctuations in our revenue and operating expenses that may occur, management believes that period-to-period comparisons of our results of operations are not a good indication of our future performance. It is possible that in some future quarter or quarters, our operating results will be below the expectations of securities analysts or investors. In that case, our common stock price could fluctuate significantly or decline.

THE FINANCIAL CONDITION OF OUR CUSTOMERS COULD AFFECT OUR RESULTS OF OPERATIONS.

Certain retailers, including some of our customers, have experienced in the past, and may experience in the future, financial difficulties, which increase the risk of extending credit to such retailers and the risk that financial failure will eliminate a customer entirely. These retailers have attempted to improve their own operating efficiencies by concentrating their purchasing power among a narrowing group of vendors. There can be no assurance that we will remain a preferred vendor for our existing customers. A decrease in business from or loss of a major customer could have a material adverse effect on our results of operations. There can be no assurance that our factor will approve the extension of credit to certain retail customers in the future. If a customer's credit is not approved by the factor, we could assume the collection risk on sales to the customer itself, require that the customer provide a letter of credit, or choose not to make sales to the customer.

OUR BUSINESS IS SUBJECT TO RISKS ASSOCIATED WITH IMPORTING PRODUCTS.

A portion of our import operations are subject to tariffs imposed on imported products and quotas imposed by trade agreements. In addition, the countries in which our products are imported may from time to time impose additional new duties, tariffs or other restrictions on their respective imports or adversely modify existing restrictions. Adverse changes in these import costs and restrictions, or our suppliers' failure to comply with customs or similar laws, could harm our business. We cannot assure that future trade agreements will not provide our competitors with an advantage over us, or increase our costs, either of which could have an adverse effect on our business and financial condition.

Our operations are also subject to the effects of international trade agreements and regulations such as the North American Free Trade Agreement, and the activities and regulations of the World Trade Organization. Generally, these trade agreements benefit our business by reducing or eliminating the duties assessed on products or other materials manufactured in a particular country. However, trade agreements can also impose requirements that adversely affect our business, such as limiting the countries from which we can purchase raw materials and setting duties or restrictions on products that may be imported into the United States from a particular country.

Our ability to import raw materials in a timely and cost-effective manner may also be affected by problems at ports or issues that otherwise affect transportation and warehousing providers, such as labor disputes. These problems could require us to locate alternative ports or warehousing providers to avoid disruption to our customers. These alternatives may not be available on short notice or could result in higher transit costs, which could have an adverse impact on our business and financial condition.

OUR DEPENDENCE ON INDEPENDENT MANUFACTURERS AND SUPPLIERS OF RAW MATERIALS REDUCES OUR ABILITY TO CONTROL THE MANUFACTURING PROCESS, WHICH COULD HARM OUR SALES, REPUTATION AND OVERALL PROFITABILITY.

We depend on independent contract manufacturers and suppliers of raw materials to secure a sufficient supply of raw materials and maintain sufficient manufacturing and shipping capacity in an environment characterized by declining prices, labor shortages, continuing cost pressure and increased demands for product innovation and speed-to-market. This dependence could subject us to difficulty in obtaining timely delivery of products of acceptable quality. In addition, a contractor's failure to ship products to us in a timely manner or to meet the required quality standards could cause us to miss the delivery date requirements of our customers. The failure to make timely deliveries may cause our customers to cancel orders, refuse to accept deliveries, impose non-compliance charges through invoice deductions or other charge-backs, demand reduced prices or reduce future orders, any of which could harm our sales, reputation and overall profitability.

We do not have long-term contracts with any of our independent contractors and any of these contractors may unilaterally terminate their relationship with us at any time. While management believes that there exists an adequate supply of contractors to provide products and services to us, to the extent we are not able to secure or maintain relationships with independent contractors that are able to fulfill our requirements, our business would be harmed.

We have initiated standards for our suppliers, and monitor our independent contractors' compliance with applicable labor laws, but we do not control our contractors or their labor practices. The violation of federal, state or foreign labor laws by one of our contractors could result in us being subject to fines and our goods that are manufactured in violation of such laws being seized or their sale in interstate commerce being prohibited. To date, we have not been subject to any sanctions that, individually or in the aggregate, have had a material adverse effect on our business, and we are not aware of any facts on which any such sanctions could be based. There can be no assurance, however, that in the future we will not be subject to sanctions as a result of violations of applicable labor laws by our contractors, or that such sanctions will not have a material adverse effect on our business and results of operations.

WE MAY NOT BE ABLE TO ADEQUATELY PROTECT OUR INTELLECTUAL PROPERTY RIGHTS.

The loss of or inability to enforce our trademarks or any of our other proprietary or licensed designs, patents, know-how and trade secrets could adversely affect our business. If any third party copies or otherwise gains access to our trademarks or other proprietary rights, or develops similar products independently, it may be costly to enforce our rights and we would not be able to compete as effectively. Additionally, the laws of foreign countries may provide inadequate protection of intellectual property rights, making it difficult to enforce such rights in those countries.

We may need to bring legal claims to enforce or protect our intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding the rights we have secured in our intellectual property, third parties may bring claims against us alleging that we have infringed on their intellectual property rights or that our intellectual property rights are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate and therefore could have an adverse affect on our business.

OUR BUSINESS IS GROWING MORE INTERNATIONAL AND CAN BE DISRUPTED BY FACTORS BEYOND OUR CONTROL.

We have been reducing our reliance on domestic contractors and expanding our use of offshore manufacturers as a cost-effective means to produce our products. During the three and six months ended June 30, 2006, we sourced a significant majority of our finished products from suppliers located outside the United States and we also continued to increase our purchase of fabrics outside the United States. In addition, we have been increasing our international sales of product primarily through our licensees and distributors.

As a result of our increasing international operations, we face the possibility of greater losses from a number of risks inherent in doing business in international markets and from a number of factors which are beyond our control. Such factors that could harm our results of operations and financial condition include, among other things:

- Political instability or acts of terrorism, which disrupt trade with the countries in which our contractors, suppliers or customers are located;
- Local business practices that do not conform to legal or ethical guidelines;
- Adoption of additional or revised quotas, restrictions or regulations relating to imports or exports;
- Additional or increased customs duties, tariffs, taxes and other charges on imports;
- Significant fluctuations in the value of the dollar against foreign currencies;
- Increased difficulty in protecting our intellectual property rights in foreign jurisdictions;
- Social, legal or economic instability in the foreign markets in which we do business, which could influence our ability to sell our products in these international markets; and
- Restrictions on the transfer of funds between the United States and foreign jurisdictions.

THE LOSS OF PAUL GUEZ OR OUR LEAD DESIGNERS WOULD HAVE AN ADVERSE EFFECT ON OUR FUTURE DEVELOPMENT AND COULD SIGNIFICANTLY IMPAIR OUR ABILITY TO ACHIEVE OUR BUSINESS OBJECTIVES.

Our success is largely dependent upon the expertise and knowledge of our Chairman, Chief Executive Officer and President, Paul Guez, and our lead designers, and our ability to continue to hire and retain other key personnel. The loss of Mr. Guez, or any of our other key personnel, could have a material adverse effect on our business, development, financial condition, and operating results. We do not maintain "key person" life insurance on any of our management or key personnel, including Mr. Guez.

RISKS RELATED TO OUR INDUSTRY

OUR SALES ARE HEAVILY INFLUENCED BY GENERAL ECONOMIC CYCLES.

Apparel is a cyclical industry that is heavily dependent upon the overall level of consumer spending. Purchases of apparel and related goods tend to be highly correlated with cycles in the disposable income of our consumers. Our customers anticipate and respond to adverse changes in economic conditions and uncertainty by reducing inventories and canceling orders. As a result, any substantial deterioration in general economic conditions, increases in interest rates, acts of war, terrorist or political events that diminish consumer spending and confidence in any of the regions in which we compete, could reduce our sales and adversely affect our business and financial condition.

OUR BUSINESS IS HIGHLY COMPETITIVE AND DEPENDS ON CONSUMER SPENDING PATTERNS.

The apparel industry is highly competitive. We face a variety of competitive challenges including:

- anticipating and quickly responding to changing consumer demands;

- developing innovative, high-quality products in sizes and styles that appeal to consumers;

- competitively pricing our products and achieving customer perception of value; and

- the need to provide strong and effective marketing support.

WE MUST SUCCESSFULLY GAUGE FASHION TRENDS AND CHANGING CONSUMER PREFERENCES TO SUCCEED.

Our success is largely dependent upon our ability to gauge the fashion tastes of our customers and to provide merchandise that satisfies retail and customer demand in a timely manner. The apparel business fluctuates according to changes in consumer preferences dictated in part by fashion and season. To the extent we misjudge the market for our merchandise, our sales may be adversely affected. Our ability to anticipate and effectively respond to changing fashion trends depends in part on our ability to attract and retain key personnel in our design, merchandising and marketing staff. Competition for these personnel is intense, and we cannot be sure that we will be able to attract and retain a sufficient number of qualified personnel in future periods.

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OUR BUSINESS MAY BE SUBJECT TO SEASONAL TRENDS.

In the experience of our management, operating results in the high end fashion denim industry have been subject to seasonal trends when measured on a quarterly basis. This trend is dependent on numerous factors, including:

- the markets in which we operate;
- holiday seasons;
- consumer demand;
- climate;
- economic conditions; and
- numerous other factors beyond our control.

OTHER RISKS RELATED TO US

OUR SALE OF SECURITIES IN ANY EQUITY OR DEBT FINANCING COULD RESULT IN DILUTION TO OUR SHAREHOLDERS AND HAVE A MATERIAL ADVERSE EFFECT ON OUR EARNINGS.

Any sale of shares by us in future private placement or other offerings could result in dilution to our existing shareholders as a direct result of our issuance of additional shares of our capital stock. In addition, our business strategy may include expansion through internal growth, by acquiring complementary businesses, by acquiring or licensing additional brands, or by establishing strategic relationships with targeted customers and suppliers. In order to do so, or to fund our other activities, we may issue additional equity securities that could dilute our shareholders' stock ownership. We may also assume additional debt and incur impairment losses related to goodwill and other tangible assets if we acquire another company and this could negatively impact our results of operations.

INSIDERS OWN A SIGNIFICANT PORTION OF OUR COMMON STOCK, WHICH COULD LIMIT OUR SHAREHOLDERS' ABILITY TO INFLUENCE THE OUTCOME OF KEY TRANSACTIONS.

As of August 1, 2006, our Chief Executive Officer, Paul Guez, Chief

Financial Officer, Patrick Chow, Gregory Abbou, President of Taverniti So Jeans LLC and two members of our design team, Messrs. Naouri and Caugant, former members of Antik, owned approximately 80% of the outstanding shares of our common stock. Paul and Elizabeth Guez, Mr. Guez's wife, alone owned approximately 72% of the outstanding shares of our common stock at August 1, 2006. Accordingly, our executive officers and key personnel have the ability to affect the outcome of, or exert considerable influence over, all matters requiring shareholder approval, including the election and removal of directors and any change in control. This concentration of ownership of our common stock could have the effect of delaying or preventing a change of control of us or otherwise discouraging or preventing a potential acquirer from attempting to obtain control of us. This, in turn, could have a negative effect on the market price of our common stock. It could also prevent our shareholders from realizing a premium over the market prices for their shares of common stock.

OUR STOCK PRICE HAS BEEN VOLATILE.

Our common stock is quoted on the Over-The-Counter Bulletin Board, and there can be substantial volatility in the market price of our common stock. The market price of our common stock has been, and is likely to continue to be, subject to significant fluctuations due to a variety of factors, including quarterly variations in operating results, operating results which vary from the expectations of securities analysts and investors, changes in financial estimates, changes in market valuations of competitors, announcements by us or our competitors of a material nature, loss of one or more customers, additions or departures of key personnel, future sales of common stock and stock market price and volume fluctuations. In addition, general political and economic conditions such as a recession, or interest rate or currency rate fluctuations may adversely affect the market price of our common stock.

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In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price of our common stock. Often, price fluctuations are unrelated to operating performance of the specific companies whose stock is affected. In the past, following periods of volatility in the market price of a company's stock, securities class action litigation has occurred against the issuing company. If we were subject to this type of litigation in the future, we could incur substantial costs and a diversion of our management's attention and resources, each of which could have a material adverse effect on our revenue and earnings. Any adverse determination in this type of litigation could also subject us to significant liabilities.

ABSENCE OF DIVIDENDS COULD REDUCE OUR ATTRACTIVENESS TO INVESTORS.

Some investors favor companies that pay dividends, particularly in general downturns in the stock market. We have not declared or paid any cash dividends on our common stock. We currently intend to retain any future earnings for funding growth, and we do not currently anticipate paying cash dividends on our common stock in the foreseeable future. Because we may not pay dividends, your return on an investment in our common stock likely depends on your selling such stock at a profit.

OFF-BALANCE SHEET ARRANGEMENTS

Financial instruments that potentially subject us to off-balance sheet risk consist of factored accounts receivable. We sell certain of our trade accounts receivable to a factor and are contingently liable to the factor for merchandise disputes and other customer claims. The total amount of receivables purchased by the factor (including receivables in transit) on a without recourse basis approximated $3,073,753 as of June 30, 2006 before reserves. The factor had made advances to us of $2,179,944 against these receivables. Although the arrangement with our factor is important to our liquidity and capital resources, management believes that cash flow from operations, and our ability to obtain other debt or equity financing, permits us to adequately support and manage our ongoing operations.

ITEM 3. CONTROLS AND PROCEDURES

As of June 30, 2006, the end of the period covered by this Quarterly Report on Form 10-QSB, we conducted an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of June 30, 2006, our disclosure controls and procedures were effective.

During the quarter ended June 30, 2006, there were no changes in the internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

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

We held our Annual Meeting of Shareholders on May 22, 2006. At the Annual Meeting, there were 26,057,200 shares of Common Stock entitled to vote, and 21,350,961 (81.9%) were represented at the meeting in person or by proxy. Immediately prior to and following the Annual Meeting, the Board of Directors was comprised of Gary Freeman, Marshall Geller, Paul Guez, Kevin Keating and Robert Lynn.

The following summarizes vote results for those matters submitted to our shareholders for action at the Annual Meeting:

1. Proposal to elect Messrs. Freeman, Geller, Guez, Keating and Lynn to serve as our directors for the ensuing year and until their successors have been elected and qualified.

DIRECTOR	FOR	WITHHELD
Gary Freeman	21,350,961	0
Marshall Geller	21,350,961	0
Paul Guez	21,350,961	0
Kevin Keating	21,350,961	0
Robert Lynn	21,350,961	0

2. Proposal to ratify the selection of Weinberg & Company, P.A. as our independent public accountants for the fiscal year ending December 31, 2006.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTES
21,350,961	0	0	0

ITEM 6. EXHIBITS

See attached Exhibit Index.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BLUE HOLDINGS, INC.

Date: August 14, 2006 By: /S/ PATRICK CHOW

Patrick Chow
Chief Financial Officer and Secretary

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EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.1	Sublease dated April 27, 2006 between Blue Holdings, Inc. and Azteca Production International, Inc. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File # 000-33297) filed with the Securities and Exchange Commission on May 3, 2006.
10.2	Agreement and Plan of Merger dated June 19, 2006, among Blue Holdings, Inc., LR Acquisition Corporation, Long Rap, Inc., the stockholders of Long Rap, Inc. and Charles Rendelman. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K (File # 000-33297) filed with the Securities and Exchange Commission on June 23, 2006.
31.1	Certification of Principal Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the

Sarbanes-Oxley Act of 2002.

32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.