BLUE HOLDINGS, INC.
Form 10QSB
May 15, 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: MARCH 31, 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 May 9, 2006, 26,057,200 shares of the registrant's common stock were outstanding.

Transitional Small Business Disclosure Format (Check One):

YES |_| NO |X|

TABLE OF CONTENTS

Page

PART I Financial Information

PART I

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	March 31, 2006	December 31, 2005
	(Unaudited)	(Audited)
CURRENT ASSETS:		
Cash	$ 105,931	$ 228,127
Due from factor, net of reserves of $49,674 and $96,849, respectively	1,265,399	693,474
Accounts receivable, net of reserves of $531,596 and $484,421, respectively:		
- Purchased by factor with recourse	4,705,701	4,287,163
- Others	159,759	2,504
Due from related parties	--	15,974
Inventories	12,077,440	9,925,162
Deferred income taxes	654,997	492,574
Prepaid expenses and other current assets	295,851	351,919
Total current assets	19,265,078	15,996,897
Deferred income taxes	1,647,004	1,671,135

Property and equipment, less accumulated depreciation	354,128	198,927
Total assets	$21,266,210	$17,866,959

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Bank overdraft	$ 539,329	$ 616,020
Accounts payable	3,427,355	2,911,598
Short-term borrowings	6,643,138	4,583,936
Due to related parties	803,063	469,186
Income taxes payable	596,953	650,468
Accrued expenses and other current liabilities	425,114	599,166
Total current liabilities	12,434,952	9,830,374
Stockholders' equity		
Common Stock $0.001 par value, authorized 75,000,000 shares, 26,057,200 shares issued and outstanding	26,057	26,057
Additional paid-in capital	5,111,249	4,996,752
Retained earnings	3,693,952	3,013,776
Total stockholders' equity	8,831,258	8,036,585
Total liabilities and stockholders' equity	$21,266,210	$17,866,959

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	Three Months Ended March 31, 2006 (Unaudited)	Three Months Ended March 31, 2005 (Unaudited)
Net sales	$11,877,879	$ 5,009,433
Cost of goods sold	5,928,616	3,346,819
Gross profit	5,949,263	1,662,614
Selling, distribution & administrative expenses	4,600,407	1,195,765

Income before interest expense and provision for income taxes	1,348,856	466,849
Interest expense	171,313	--
Income before provision for income taxes	1,177,543	466,849
Provision for income taxes	497,367	800
Net income	$ 680,176	$ 466,049
Earnings per common share - Basic and diluted	$ 0.03	$ 0.02
Weighted average shares outstanding - Basic and diluted	26,057,200	26,057,200

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED MARCH 31, 2006

	Shares Issued				
	Number	Par Value 0.001	Additional Paid In Capital	Retained Earnings	Total
Balance, January 1, 2006	26,057,200	$ 26,057	$4,996,752	$3,013,776	8,036,585
Fair value of options granted	--	--	114,497	--	114,497
Net Income for the period	--	--	--	680,176	680,176
Balance, March 31, 2006	26,057,200	$ 26,057	$5,111,249	$3,693,952	$8,831,258

BLUE HOLDINGS INC. (FORMERLY KNOWN AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THREE MONTHS ENDED MARCH 31, 2006 AND 2005

	For the three months ended March 31,	
	2006	2005
	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net Income	$ 680,176	$ 466,049
Adjustments to reconcile net income (loss) to cash used in operating activities:		
Depreciation	26,020	1,453
Fair value of stock options granted	114,497	--
Changes in assets and liabilities:		
Accounts receivable	(575,793)	(303,493)
Due from factor	(571,925)	(362,117)
Inventories	(2,152,278)	(889,964)
Due from related parties	15,974	(539,631)
Deferred income taxes	(138,292)	--
Due to related parties	333,877	(64,762)
Prepaid expenses and other current assets	56,068	(13,557)
Income tax payable	(53,515)	--
Bank overdraft	(76,691)	--
Accounts payable	427,550	1,370,330
Due to customers	88,208	33,440
Other current liabilities	(174,053)	104,507
Net cash used in operating activities	(2,000,177)	(197,745)
Cash flows from investing activities:		
Purchase of equipment	(181,221)	(32,556)
Net cash used in investing activities	(181,221)	(32,556)
Cash flows from financing activities:		
Short-term borrowings	2,059,202	--
Contribution of capital	--	186,200
Net Cash provided by financing activities	2,059,202	186,200
Net (decrease) in cash	(122,196)	(44,101)
Cash at beginning of period	228,127	84,635
CASH AT END OF PERIOD	$ 105,931	$ 40,534

SUPPLEMENTAL DISCLOSURES OF CASH FLOW STATEMENT

Cash paid for income tax	$ 683,500	$ --

Cash paid for interest	$ 171,313	$ --
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SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

BLUE HOLDINGS INC. (FORMERLY KNOWNS AS MARINE JET TECHNOLOGY CORP.)
AND SUBSIDIARIES
NOTES TO CONDENSED FINANCIAL STATEMENTS AS OF MARCH 31, 2006
(UNAUDITED)

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

(a) BASIS OF PRESENTATION:

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.

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 March 31, 2006, the results of operations for the three months ended March 31, 2006 and 2005, and the cash flows for the three months ended March 31, 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 months ended March 31, 2006 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending December 31, 2006.

(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 is 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 member of Taverniti. Elizabeth Guez, Paul Guez's spouse and the Company's former Chief Operating Officer, was 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 has been 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," "Yanuk," "U," and as of October 31, 2005, "Taverniti So Jeans." 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 is shipped to the customer based upon agreed terms and is recorded net of estimated returns, chargebacks and markdowns based upon management's estimates and historical experience. We sometimes arrange, on behalf of manufacturers, for the purchase of fabric from a single supplier. We have the fabric shipped directly to the cutting factory and invoice

the factory for the fabric. The factories then pay us for the fabric with offsets against the price of the finished goods.

(c) ADVERTISING:

Advertising costs are expensed as of the first date the advertisements take place. Advertising expenses included in selling expenses approximated $506,165 for the three months ended March 31, 2006, compared to $31,762 for the three months ended March 31, 2005.

(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. Concentration of credit risk with respect to trade accounts receivable at March 31, 2006 is limited due to the number of customers comprising the Company's customer base and their dispersion throughout the United States and abroad. 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 amount 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. During the three months ended March 31, 2006, one customer accounted for 20.6% of our total sales, and as of March 31, 2005, one customer accounted for 21% of trade accounts receivable.

(e) CASH AND BANK OVERDRAFT

Bank overdraft of $539,329 as of March 31, 2006 is comprised of issued but unpresented checks and is to be offset by cash at bank of $105,931.

(f) 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 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 will recognize 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 is required to recognize 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 months ended March 31, 2006 was $114,497. 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:

	Three Months Ended March 31, 2006
Dividend yield	--
Risk-free interest rate	4.50%
Expected volatility	46.01%
Expected life of options	5 years

During the three months ended March 31, 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 March 31, 2005 is required.

(g) NET INCOME (LOSS) 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 March 31, 2006 and 2005, potentially dilutive securities consisted of outstanding common stock options to acquire 697,000 and 0 shares, respectively. These potentially dilutive securities were not included in the calculation of income per share for the quarter ended March 31, 2006 as the exercise price of the options exceeded the average market price of the shares. Accordingly, basic and diluted loss per share is the same for the quarter ended March 31, 2006.

(h) SHIPPING AND HANDLING COSTS:

Freight charges are included in selling, distribution and administrative expenses in the statement of operations and approximated $216,403 for the three months ended March 31, 2006 as compared with $46,890 for the same period last year.

(i) MAJOR SUPPLIERS:

During the first quarter of 2006, three suppliers comprised greater than 10% of the Company's purchases. Purchases from these suppliers were 24.2%, 14.7% and 11.1% respectively. One of them is Blue Concept, LLC, which is co-owned by Paul Guez, accounted for 14.7%.

(j) MAJOR CUSTOMER:

During the three months ended March 31, 2006, one customer comprised of greater than 10% of the Company's sales. Sales to that customer were 20.6%.

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, which have all been amended to terminate on July 24, 2006, provide for automatic renewal after that date 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, however, the definitive documents representing the increase are still being negotiated with the factor. As of March 31, 2006, the Company drew down $2.1 million of this credit line against inventory.

As of March 31, 2006, the factor holds $2,639,057 of accounts receivable purchased from us on a without recourse basis and has made advances to us of $1,323,984 against those receivables, resulting in a net balance amount Due from Factor of $1,265,399, net of reserves of $49,674, as of March 31, 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 March 31, 2006, the factor also held $4,705,700 of accounts receivable that were subject to recourse, net of reserves of $337,246 and as of March 31, 2006, the Company received advances totaling $6,643,138 against such receivables and against eligible inventory. The company has included the $4,705,700 in accounts receivable, and has reflected the $6,643,138 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.

During the period, 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 below $20 million and 0.65% if below $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 March 31, 2006 and December 31, 2005 are summarized as follows:

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
Raw Materials	$ 3,757,988	$ 3,850,916
Work-in-Process	3,461,399	2,842,531
Finished Goods	4,858,053	3,231,715
TOTAL	$12,077,440	$ 9,925,162

NOTE 5 - PROPERTY AND EQUIPMENT

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

	March 31, 2006 (Unaudited)	December 31, 2005 (Audited)
Furniture	$ 12,973	$ 11,217
Leasehold Improvements	45,044	44,600
Computer Equipment	341,681	162,659
	399,698	218,476
Less: Accumulated depreciation and Amortization	(45,570)	(19,549)
TOTAL	$ 354,128	$ 198,927

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 $241,566 during the three months ended March 31, 2006.

Azteca Production International Inc. is one of our contractors in Mexico and is co-owned by Paul Guez, our majority stockholder. During the three months ended March 31, 2006, we paid them sewing and other sub-contracting charges in the amount of $818,802. Azteca principally provided manufacturing services to Taverniti.

Since July 2005, the Company has purchased finished "Yanuk" products from Blue Concept, LLC. These purchases were made at a cost plus basis to cover the cost of goods sold plus allocated overhead. Off -price "Yanuk" products were sold on behalf of Blue Concept, LLC with an overhead recovery charged to Blue Concept, LLC. During the first quarter ended March 31, 2006, total purchases from Blue Concept, LLC amounted to $266,725.

On July 5, 2005 the Company entered into a ten-year license agreement with Yanuk Jeans, LLC, and effective 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 months ended March 31, 2006 paid or payable to Yanuk Jeans, LLC totaled $114,619. 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 months ended March 31, 2006 amounted to $350,782.

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 March 31, 2006, the Company had advances totaling $107,871 from Mr. Paul Guez which are included in amounts due to related parties on the accompanying balance sheet.

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 $497,367 for the three months ended March 31, 2006 compared to $800 for the same period of the prior year. For the three months ended March 31, 2005 the income earned and related Federal and State income tax obligations for the period were passed through to the previous members of Antik Denim, LLC, and Taverniti So Jeans, LLC, and the Company recorded no provision for such taxes.

14

The provision for income taxes consists of the following for the periods ended March 31:

	2006	2005
Current		
Federal	$ 454,294	$ 0
State	181,365	800
Deferred		
Federal	(80,690)	0
State	(57,602)	0
Provision for income tax expense	$ 497,367	$ 800

A reconciliation of the statutory federal income tax rate to the effective tax rate is as follows for the periods ended March 31:

	2006	2005
Statutory federal rate	34.0%	34.0%
State taxes, net of federal benefit	7.0	0.1
Income not taxed at the Company level	0.0	(34.0)
Permanent differences	1.5	0.0
Other	(0.1)	0.0
Effective tax rate	42.4%	0.1%

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.

At March 31, 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	--	--
Balance at March 31, 2006	697,000	$ 6.41

Additional information regarding options outstanding as of March 31, 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 averag Weighted Average Exercise Price

$8.10	62,000	9.18	$8.10	22,000	$8.10
$7.40	300,000	9.36	$7.40	100,000	$7.40
$5.30	65,000	9.37	$5.30	25,000	$5.30
$5.20	270,000	9.75	$5.20	--	
$5.20 - $8.10	697,000	9.50	$6.41	147,000	$7.15

NOTE 10 - SUBSEQUENT EVENTS

On April 27, 2006, we entered into a sublease agreement with Azteca Production International, Inc., which is co-owned by Paul Guez, and have contracted to pay $19,030 per month retroactive January 1, 2006 for the use of the Commerce facility.

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, develop, market and distribute high end fashion jeans and accessories under the brand names "Antik Denim," "Yanuk," "U" and "Taverniti So Jeans." We plan to also design, develop, market and distribute jeans and accessories under other brands that we may license or acquire from time to time. Our products currently include jeans, jackets, belts, purses and T-shirts. We currently sell our 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. We are headquartered in Commerce, California and maintain two showrooms in New York and Los Angeles. We opened a retail store in Los Angeles during August 2005.

We operate in the high end fashion denim industry. Our competitors are companies such as Levi Strauss, Calvin Klein, Joe's Jeans, True Religion Apparel, Seven For All Mankind and Citizens of Humanity. Our competitive edge lies in our ability to create innovative concepts and designs, to develop products with extraordinary fit, and to expand our high quality fabrics and finishes, treatments and embellishments (including our copyrighted pockets, hand stitching and embroidery detail).

17

CORPORATE BACKGROUND

Blue Holdings, Inc. was 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 March 31, 2006, we entered into a Letter of Intent with Global Fashion Group, SA ("Global Fashion Group") to form a new joint venture company which will have a license to produce, manufacture and distribute apparel and accessories for our three principal brands, "Antik Denim," "Taverniti So Jeans" and "Yanuk," throughout Europe and other territories. The initial term of the license will be for two years, with automatic renewal for an additional three-year term if the joint venture achieves target net sales and is not in breach of the license. Under the terms of the Letter of Intent, the joint venture will pay to us a royalty of fifteen percent (15%) of all net sales of the licensed products and will pay guaranteed minimum royalties on an annual basis in the aggregate amount of EUR 13.4 million through 2010 assuming the license to the joint venture is renewed. The Letter of Intent provided for an upfront initial license fee of EUR 200,000. We will own one-half of the ownership interest in the joint venture and Global Fashion Group will own the remaining half. The joint venture will have a right of first refusal to license future brands developed by us and neither the joint venture nor Global Fashion Group are permitted to engage in competitive activities with respect to the products licensed to the joint venture during the term of the license. The parties are currently negotiating the final definitive documents for the transaction.

BUSINESS STRATEGY

We strive to build on our position in the principal markets in which we compete by focusing on the following four core elements of our business strategy.

PRODUCT STRATEGY

Our overall product strategy is to offer multiple brands of apparel in the premium and better denim segments. As a result of the license agreements with Yanuk Jeans LLC and the acquisition of Taverniti So Jeans LLC, we currently market our products under the "Antik Denim," "Taverniti So Jeans", "Yanuk" and "U" brands and plan to continue to further expand our brand portfolio by acquisition and/or license of existing apparel companies and/or brands, as applicable, in the premium or better segments of the industry, or the creation of new brands by our internal design team. Although no definitive arrangement or plan is currently in place, we expect our management to periodically review potential acquisition and licensing opportunities to expand our product line and brands in these targeted market segments. Our goal is to employ a multi-brand strategy to reduce risks associated with the natural life cycle of a single brand and to appeal to a broader customer base with different looks from different brands. We believe the increase in demand for premium denim products over the last couple of years and relatively high retail price points for premium jeans, ranging from approximately $150 to $400, offers us a significant opportunity to increase our revenues and improve our profitability.

We also intend to license our proprietary owned and licensed trademarks with respect to products that we believe are not in our core line of business. While there is no existing plan with respect to the types of products to which we intend to license our proprietary trademarks, on September 8, 2005, Antik entered into a license agreement with Titan Industries, Inc. that provides Titan with an exclusive right to use the "Antik Denim" trademark for the sale of men's and women's footwear in the United States and its possessions and territories, Canada and Mexico, and a right of first refusal for similar use of the trademark in Europe and South America.

Our senior management team has significant experience in developing and marketing multiple premium denim products and brands, which we believe demonstrates a capability to implement our product strategy. Over the last thirty years, Mr. Guez, our Chairman, Chief Executive Officer and President, has engaged in the design, marketing, manufacturing and wholesale distribution of premium fashion and denim collections, including Sasson Jeans and more recently, a growing stable of contemporary brands, such as Duarte Jeans, Elvis, Memphis Blues and Grail Jeans. Our principal designers, Philippe Naouri, Alex Caugant, Jimmy Taverniti and Benjamin Taverniti have previously assisted world-renowned casual apparel companies such as Chevignon, Diesel, GOA, and Replay in the design and development of successful brands and products.

OPERATING STRATEGY

Our operating strategy is to continue to build on our strengths in brand development, marketing, distribution and product sourcing capabilities to become the leading company in the high fashion denim apparel industry. Our goal is to leverage the expertise and relationships gained by our executive management and product design teams' prior experience in creating and developing premium denim apparel brands, product sourcing and manufacturing in the US, Mexico and Asia, and distributing to high-end retail channels both domestically and internationally.

Historically, we have relied on the services and staff of companies affiliated with Mr. Paul Guez in several areas of our business operations. We are moving away from this model and we are in the process of building a team of professionals with significant prior experience and established relationships in the denim apparel industry to assume the responsibility for coordinating product manufacturing, material sourcing, and sales and marketing.

GROWTH STRATEGY

We plan to continue to expand our operations, revenues, and profits through our internal growth and the acquisition and/or license of complimentary apparel brands or companies that we may identify from time to time. We anticipate that our internal growth will be driven by (1) expansion of our product lines by introducing new styles, including at varying price points, and complimentary products and accessories, (2) expansion of our wholesale distribution, both domestically and internationally through high end retailers (3) the opening of select retail flagship stores domestically and the licensing of operators overseas to open stores to promote the identity of our brands, and (4) a broader retail strategy focusing on the launch and operation of stores retailing our various brands. Our first retail store opened on August 27, 2005 on Melrose Avenue in Los Angeles. We anticipate that our growth strategy through acquisitions and/or licenses will involve the acquisition or license of additional companies and/or brands, as applicable, depending upon a company's and/or a brand's sales revenues, name and brand recognition, and/or synergies with the "Antik Denim," "Taverniti So Jeans," "Yanuk" and "U" brands, with the ultimate goal of building a portfolio of lifestyle brands in the premium and better segments of the denim industry. In line with this strategy, we licensed the rights to the "U" brand from Yanuk Jeans LLC, and completed the acquisition of Taverniti. Although no other definitive arrangement or plan is currently in place, we expect our management to periodically review and evaluate potential acquisition and licensing opportunities and make recommendations to our Board of Directors.

SUPPLY STRATEGY

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 the period ended

March 31, 2006, other than Blue Concept LLC which is a related party and from which we purchased fabric, two suppliers comprised greater than 10% of the Company's purchases. Purchases from these suppliers were 24.2% and 11.1% respectively, of our total supply purchases.

OUR PRODUCTS

Our principal products are high end fashion jeans that we design, manufacture, market, distribute and sell, including through our wholly-owned subsidiaries, Antik and Taverniti, under the "Antik Denim," "Taverniti So Jeans" and "Yanuk" labels. These jeans 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." "Antik Denim," "Yanuk" and "Taverniti So Jeans" brand jeans 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 "Antik Denim," "Yanuk" and "Taverniti So Jeans" brand jeans and apparel a competitive advantage in the high end fashion jean market. Antik branded products currently account for a large majority of our sales. In the period ended March 31, 2006, Antik branded products accounted for approximately 40% of our net sales, "Taverniti So Jeans" branded products accounted for approximately 44% of our net sales, and "Yanuk" branded products accounted for approximately 16% of our net sales, for the year.

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. Indeed, we introduce new versions of our major styles each month in different colors, washes and finishes. Although the majority of our sales arise from the sale of jean products, our product line is balanced by tops, including knits and wovens, and accessories, the sales of which we anticipate will continue to grow.

With the license of the "U" brand from Yanuk Jeans LLC, we plan to design, develop, market and distribute jeans and accessories under the "U" brand at price points different from those of "Antik Denim," "Yanuk" and "Taverniti So Jeans."

MARKETING, DISTRIBUTION AND SALES

We market, distribute and sell "Antik Denim" brand products and, as a result of license agreements with Yanuk Jeans LLC, "Yanuk" and "U" brand products, in the United States and internationally in a number of other countries such as Canada, Belgium, France, Germany, Sweden, Italy, Korea and Japan. As a result of the acquisition of Taverniti in October 2005, we will similarly market, distribute and sell "Taverniti So Jeans" brand products. In the period ended March 31, 2006, 37% of our total sales came from overseas customers.

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, Canada and Australia, 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. On March 31, 2006, we entered into a Letter of Intent with Global Fashion Group, SA ("Global Fashion Group") to form a new joint venture company which will have a license to produce, manufacture and distribute apparel and accessories for our three principal brands, Antik Denim, Taverniti So Jeans and Yanuk, throughout Europe and other territories. The initial term of the license will be for two years, with automatic renewal for an additional three-year term if the joint venture achieves target net sales and is not in breach of the license. Under the terms of the Letter of Intent, the joint venture will pay to us a royalty of fifteen percent (15%) of all net sales of the licensed products and will pay guaranteed minimum royalties on an annual basis in the aggregate amount of EUR 13.4 million through 2010 assuming the license to the joint venture is renewed. The Letter of Intent provides for an upfront initial license fee of EUR 200,000.

Our products are sold in the United States to department stores and boutiques such as Saks Fifth Avenue, Neiman Marcus, Nordstrom, Bloomingdales, Bergdorf Goodman, 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 intend to operate certain flagship stores domestically and to license overseas operators to open retail stores that focus on high end fashion denim generally, and the "Antik Denim," "Yanuk," "U" and "Taverniti So Jeans" brands, in particular. We also intend to explore a broader retail strategy focusing on the launch and operation of stores retailing our various brands. While there is no existing plan with respect to the roll-out of such stores, our first retail store was opened on August 27, 2005 on Melrose Avenue in Los Angeles.

MANUFACTURING

We presently outsource all of our manufacturing 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 (U.S.) factories. We are increasing the use of factories 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 period ended March 31, 2006, two sub-contractors accounted for 27.7% and 18.9% respectively, of our manufacturing. 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 more cost savings.

COMPETITION

The high-end fashion denim industry is very competitive and fragmented. Our competitors are companies such as Levi Strauss, Calvin Klein, Joe's Jeans, True Religion Apparel, Seven For All Mankind and Citizens of Humanity.

Our competitive edge lies in our ability to create innovative concepts and designs, to develop products with extraordinary fit, and to expand our high quality fabrics and finishes, treatments and embellishments (including our patent pending pockets, hand stitching and embroidery detail). We believe that we offer value products that can successfully compete in the high end fashion denim industry.

TRADEMARKS AND OTHER INTELLECTUAL PROPERTY

Antik is the holder of trademark applications for the "Antique Denim" and "Antik Denim" marks in the United States and various other foreign jurisdictions. Antik 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 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," "Yanuk," "U" and "Taverniti So Jeans" 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'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.

DESIGN AND DEVELOPMENT

Mr. Guez, along with a team of designers, is responsible for the design and development of our product lines. There is no formal research and development plan at this time, however, since inception; we have apportioned significant resources on our research and development activities related to our designs. In the period ended March 31, 2006, our expenses on design and development amounted to approximately $0.46 million.

EMPLOYEES

As of April 30, 2006, we had 132 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.

22

Our employees are not unionized and except as described in other portions of this Annual Report on Form 10-KSB, no employees are subject to existing employment agreements.

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, where 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 $21,840 per month for the lease of the shop space.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended March 31, 2006, net cash used in operating activities was $(2 million). The deficit was primarily due to an increase of $2.2 million in inventory, $0.6 million in due from factor and $0.6 million in accounts receivables and was offset by an increase in accounts payable of $0.4 million and an increase in due to related parties of $0.3 million. Net cash provided by financing activities was $2.1 million from short-term borrowings. The Company utilized $0.2 million in investing activities which consisted entirely of the purchase of equipment.

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, which have all been amended to terminate on July 24, 2006, provide for the automatic renewal of the agreements after that date, 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, however, the definitive documents representing

the increase are still being negotiated with the factor. On March 31, 2005, we drew down $2.1 million of this credit line.

As of March 31, 2006, the amount of the reserve held by the factor was approximately $0.75 million. 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 $6.6 million as of March 31, 2006. The factor commission is 0.4% for receivables purchased subject to recourse. Receivables subject to recourse approximated $4.7 million net of reserves as of March 31, 2006.

From time to time, Paul Guez, our Chairman and CEO, supports the Company with temporary advances. As of March 31, 2006, the Company had advances totaling $107,871 from Mr. Guez which are included in amounts due to related parties on the accompanying balance sheet

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 March 31, 2006, the factor holds $2,639,057 of accounts receivable purchased from us on a without recourse basis and has made advances to us of $1,323,984 against those receivables, resulting in a net balance amount Due from Factor of $1,265,399, net of reserves of $49,674, as of March 31, 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 is 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 is accounted for as a combination of entities under common control, and its 2005 results are 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.

24

THREE MONTHS ENDED MARCH 31, 2006 VS. 2005

Net sales increased from $5 million for the three months ended March 31, 2005 to $11.9 million for the three months ended March 31, 2006. Antik's production in the first quarter this year was partially disrupted by the Company's conversion to a new computer software system which affected production planning and resulted in a certain amount of orders being late or cancelled. This problem has since been under control.

Gross profit for the three months ended March 31, 2006 increased to $5.95 million, or 50% of net sales from $ 1.66 million or 33 % of net sales in the three months ended March 31, 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 March 31, 2006 totaled $4.6 million compared with $1.2 million for the three months ended March 31, 2005. The principal components in the first quarter of 2006 were payroll of $1.8 million (compared to $0.1 million in the first quarter last year), advertising and trade show expenses of $0.6 million ($0.09 million in the same period of 2005), travel expenses of $0.31 million ($0.09 million in the same period of 2005), royalties of $0.47 million ($0.05 million in 2005) and stock-based compensation of $0.11 million (none in 2005). The expenses on advertising, trade shows and the related travel expenses in the first quarter this year are expected to be cut back in the second quarter this year.

Net Income after provision for taxes in the first quarter of 2006 was

$0.68 million or 5.7 % of net sales compared to $0.5 million or 9.3 % of net sales in the first quarter of 2005. Basic and diluted earnings per share increased to $0.03 from $0.02 in the same period of last year. For the three months ended March 31, 2006, the Company provided $0.5 million for income tax compared to $800 in the same period last year. During the three months ended March 31, 2005, the income (loss) and related Federal and State income tax obligations for the period were passed through to the previous members of Antik Denim, LLC and Taverniti So Jeans, LLC, and the Company recorded no provision for such taxes.

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.

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 RECEIVABLES

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 ultimate collect. 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.

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.

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, and 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.

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.

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 May 9, 2006, our Chief Executive Officer, Paul Guez, Chief Financial Officer, Patrick Chow, and two members of our design team, Messrs. Naouri and Caugant, former members of Antik, owned approximately 82.3% 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 May 9, 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.

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 $2,639,057 as of March 31, 2006 before reserves. The factor had made advances to us of $1,323,984 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 March 31, 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 March 31, 2006, our disclosure controls and procedures were effective.

During the quarter ended March 31, 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 6. EXHIBITS

See attached Exhibit Index.

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: May 15, 2006 By: /S/ PATRICK CHOW

Patrick Chow
Chief Financial Officer and Secretary

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.1	Amendment No. 3 to Factoring Agreement entered into on

	December 22, 2005 and dated as of January 1, 2006, between Antik Denim, LLC and FTC Commercial Corp. (Incorporated by reference to Exhibit 10.20 of the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 23, 2006).
10.2	Amendment No. 3 to Factoring Agreement entered into on December 22, 2005 and dated as of January 1, 2006, between Blue Holdings, Inc. and FTC Commercial Corp. (Incorporated by reference to Exhibit 10.21 of the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 23, 2006).
10.3	Letter of Intent dated March 31, 2006, between Blue Holdings, Inc. and Global Fashion Group, SA.
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.