

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

ANZA CAPITAL INC  
Form 10-Q  
December 15, 2005

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

Form 10-Q

(Mark One)

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

For the quarterly period ended October 31, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-24512

Anza Capital, Inc.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

88-1273503  
(I.R.S. Employer  
Identification No.)

3200 Bristol Street, Suite 700  
Costa Mesa, CA  
(Address of principal executive offices)

92626  
(Zip Code)

Registrant's telephone number, including area code (714) 866-2100

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes  No

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

Applicable only to issuers involved in bankruptcy proceedings  
during the preceding five years:

Indicate by check mark whether the registrant filed all documents and  
reports required to be filed by Sections 12, 13 or 15(d) of the Exchange Act of  
1934 subsequent to the distribution of securities under a plan confirmed by a  
court. Yes  No

Applicable only to corporate issuers

Indicate the number of shares outstanding of each of the issuer's classes

# Edgar Filing: ANZA CAPITAL INC - Form 10-Q

of common stock, as of the latest practicable date. As of December 2, 2005, there were 10,435,148 shares of common stock issued and 6,297,648 shares of common stock outstanding.

1

ANZA CAPITAL, INC.

## TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION.....	3
ITEM 1 Financial Statements.....	3
ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.....	20
ITEM 3 Quantitative and Qualitative Disclosures About Market Risk.....	27
ITEM 4 Controls and Procedures.....	27
PART II - OTHER INFORMATION.....	29
ITEM 1 Legal Proceedings.....	29
ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds.....	29
ITEM 3 Defaults Upon Senior Securities.....	29
ITEM 4 Submission of Matters to a Vote of Security Holders.....	29
ITEM 5 Other Information.....	29
ITEM 6 Exhibits.....	30

2

## PART I - FINANCIAL INFORMATION

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on management's beliefs and assumptions, and on information currently

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

available to management. Forward-looking statements include the information concerning our possible or assumed future results of operations set forth under the heading "Management's Discussion and Analysis of Financial Condition or Plan of Operation." Forward-looking statements also include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider" or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Our future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

### ITEM 1 Financial Statements

3

#### ANZA CAPITAL, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	October 31, 2005 (Unaudited) -----
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 1,314,794
Commissions receivable and accounts receivable	961,907
Loans held for sale, net	--
Marketable securities, subject to rescission	--
Prepays and other current assets	12,882
	-----
Total current assets	\$ 2,289,583
Property and equipment, net	157,984
Other assets	47,334
	-----
Total assets	\$ 2,494,901
	-----
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable	\$ 99,770
Commissions payable	2,073,877
Warehouse line of credit	--
Accrued liabilities	1,881,887
Unsecured line of credit	70,868
Other current liabilities	52,008
Convertible notes payable, net of discount of \$3,625 and \$51,141	57,375
Redeemable securities, net of discount	--
	-----
Total liabilities	\$ 4,235,785
	-----
Stockholders' equity (deficit): Preferred stock, 2,500,000 shares authorized:	
Class D convertible preferred stock, no par value; liquidation value of \$126.81 per share; 15,000 shares authorized; 8,201.5 shares outstanding as	

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

of October 31, 2005 and April 30, 2005 respectively	1,040,222
Class F convertible preferred stock, no par value; liquidation value of \$16.675 per share; 25,000 shares authorized, 18,800 shares issued and outstanding as of October 31, 2005 and April 30, 2005 respectively	313,490
Common stock, \$0.001 par value; 100,000,000 shares authorized; 10,435,148 and 10,486,398 shares issued as of October 31, 2005 and April 30, 2005, respectively; 6,297,648 and 6,315,998 shares outstanding as of October 31, 2005 and April 30, 2005 respectively	6,298
Additional paid in capital	16,024,219
Accumulated deficit	(19,125,113)
	-----
Total stockholders' equity (deficit)	\$ (1,740,884)
	-----
 Total liabilities and stockholders' equity	 \$ 2,494,901 =====

See accompanying notes to these consolidated financial statements

4

ANZA CAPITAL, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended		Six Months Ended	
	October 31, 2005	October 31, 2004	October 31, 2005	October 31, 2004
	-----	-----	-----	-----
Revenues:				
Broker commissions	\$ 12,514,311	\$ 11,964,772	\$ 26,000,979	\$ 26,000,979
Sales of loans, net	22,888	161,262	31,072	31,072
Notary and other	--	278,761	--	--
	-----	-----	-----	-----
	12,537,199	12,404,795	26,032,051	26,032,051
	-----	-----	-----	-----
Cost of revenues:				
Cost of mortgage related revenues	8,488,063	9,062,179	18,165,181	18,165,181
Notary and other	--	254,885	--	--
	-----	-----	-----	-----
	8,488,063	9,317,064	18,165,181	18,165,181
	-----	-----	-----	-----
Gross profit	4,049,136	3,087,731	7,866,870	7,866,870
	-----	-----	-----	-----
Operating expenses:				
General and administrative	2,853,129	3,947,261	5,723,212	5,723,212
Selling and marketing	1,183,998	439,454	2,223,069	2,223,069
Provision for litigation losses	500,000	--	500,000	500,000
	-----	-----	-----	-----
	4,537,127	4,386,715	8,446,281	8,446,281
	-----	-----	-----	-----

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Operating income (loss)	(487,991)	(1,298,984)	(579,411)	(
Interest expense	(37,740)	(65,180)	(419,968)	
Interest income	17,044	47,239	43,386	
Other expenses	(8,480)	--	(52,043)	
	-----	-----	-----	-----
Net (loss)	\$ (517,167)	\$ (1,316,925)	\$ (1,008,036)	\$ (
Preferred Stock dividends	--	--	(1,760)	
	-----	-----	-----	-----
Net loss available to common shareholders	\$ (517,167)	\$ (1,316,925)	\$ (1,009,796)	\$ (
	=====	=====	=====	=====
Earnings (loss) per common share:				
Basic:				
Weighted average number of common shares	6,297,648	4,869,896	6,311,090	
Net loss per common share	\$ (0.08)	\$ (0.27)	\$ (0.16)	\$
Diluted:				
Weighted average number of common shares	6,297,648	4,869,896	6,311,090	
Net loss per common share	\$ (0.08)	\$ (0.27)	\$ (0.16)	\$

See accompanying notes to these consolidated financial statements

5

ANZA CAPITAL, INC.  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended October 31, 2005	Six Mo Ende October 31
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (1,008,036)	\$ (1,265
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	27,034	35
Consulting expense	--	900
Amortization of discounts on convertible notes	47,516	
Loss on cancellation of Series G Preferred Stock	281,322	
Changes in operating assets and liabilities:		
Decrease in commissions and accounts receivable	272,751	638
Decrease (Increase) in loans held for sale, net	5,886,950	(4,146
Decrease in prepaids and other current assets	5,220	5
Increase (Decrease) in accounts payable	18,925	(105
(Decrease) Increase in commissions payable	(17,252)	325
Increase (Decrease) in accrued and other liabilities	302,180	(61
	-----	-----
Net cash provided by (used in) operating activities	5,816,610	(3,673
	-----	-----
Cash flows from investing activities:		
Acquisitions of property and equipment	(1,226)	
Other assets, net	--	1
	-----	-----
Net cash provided by (used in) investing activities	(1,226)	1

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Cash flows from financing activities:		
Payments on warehouse line of credit, net	(5,778,298)	4,007
Payments on unsecured line of credit, net	(4,132)	
Payments on convertible notes payable	(35,000)	
Net cash (used in) provided by financing activities	(5,817,430)	4,007
Net (decrease) increase in cash and cash equivalents	(2,046)	335
Cash and cash equivalent at beginning of period	1,316,840	2,204
Cash and cash equivalent at end of period	\$ 1,314,794	\$ 2,539
Non-cash investing and financing activities:		
Minority interest in consolidated subsidiary	\$ --	\$ 356
Securities exchange agreement	\$ --	\$ 1,000
Dividends of Series F Preferred Stock	\$ 1,760	\$
Cancellation of marketable securities, subject to rescission	\$ (1,090,000)	\$
Cancellation of redeemable securities, net of discount	\$ 808,678	\$
Supplemental cash flow information:		
Cash paid for interest	\$ 88,635	\$ 115

Income taxes were not significant during the periods presented

See accompanying notes to these consolidated financial statements

6

NOTES TO INTERIM FINANCIAL STATEMENTS

Note 1. Unaudited interim financial statements

The interim financial data as of October 31, 2005 is unaudited; however, in the opinion of management, the interim data includes all adjustments, consisting of normal recurring adjustments, necessary to present fairly the Company's consolidated financial position as of October 31, 2005, and the results of their operations and their cash flows for the three and six months ended October 31, 2005 and 2004. The results of operations are not necessarily indicative of the operations, which may result for the year ending April 30, 2006. Also, in the opinion of management, all disclosures required on Form 10-Q were fully furnished.

ANZA is a holding company with one active subsidiary. All intercompany transactions have been eliminated in the accompanying consolidated financial statements. The Company's annual report on Form 10-K for the year ended April 30, 2005 should be read in connection with this quarterly report.

Certain prior year amounts have been reclassified for comparative purposes. These reclassifications have no effect on previously reported income or loss.

Note 2. Going Concern

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

In connection with the audit of the consolidated financial statements for the year ended April 30, 2005, the Company received a report from its independent auditors that included an explanatory paragraph describing uncertainty as to the Company's ability to continue as a going concern, which contemplated that assets and liabilities would be settled at amounts in the normal course of business. ANZA incurred a loss from operations during the year ended April 30, 2005 and had an accumulated deficit as of April 30, 2005. In addition, AMRES is a defendant in a significant amount of litigation for which the outcome is uncertain. In some cases, management believes losses are covered by insurance. ANZA's industry in recent years has experienced increased competition. In addition, home sales have decreased during the past 4 months, having a slowing effect on the industry. Management's immediate plans are to reduce spending through management level pay decreases and the management of expenses. There are no assurances that management will be successful in its plans. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Note 3. Significant Customer Concentration

For the six months ended October 31, 2005 and 2004, three investors accounted for one hundred percent and eighty percent of the purchases of loans held for sale, respectively and accounted for one hundred percent and eighty percent of the revenues from the mortgage banking business, respectively.

### Note 4. Segment disclosure

Segments were determined based on services provided by each segment. Performance of the segments is evaluated on net income (loss). For the three and six months ended October 31, 2005 and 2004, management has provided the following information with respect to its operating segments (in thousands).

7

	Revenues		Three Months Ended October 31, Net Loss		Ass
	2005	2004	2005	2004	
Loan brokering	\$ 12,426	\$ 11,965	\$ (561)	\$ (339)	\$ 2,466
Mortgage banking	23	161	53	20	8
Real Estate Brokerage	--	279	--	2	--
	-----	-----	-----	-----	-----
	\$ 12,449	\$ 12,405	\$ (508)	\$ (317)	\$ 2,474
Corporate	--	--	--	(1,000)	--
Escrow	88	--	\$ (9)	--	21
	-----	-----	-----	-----	-----
Total	\$ 12,537	\$ 12,405	\$ (517)	\$ (1,317)	\$ 2,495
	=====	=====	=====	=====	=====

	Revenues		Six Months Ended October 31, Net Loss		Ass
	2005	2004	2005	2004	
Loan brokering	\$ 25,831	\$ 25,342	\$ (1,006)	\$ (318)	\$ 2,466
Mortgage banking	31	280	(3)	50	8

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Real Estate Brokerage	0	407	0	2	--
	-----	-----	-----	-----	-----
	\$ 25,862	\$ 26,029	\$ (1,009)	\$ (266)	\$ 2,474
	=====	=====	=====	=====	=====
Corporate	--	--	--	(1,000)	--
Escrow	170	--	(1)	--	21
	-----	-----	-----	-----	-----
Total	\$ 26,032	\$ 26,029	\$ (1,010)	\$ (1,266)	\$ 2,495
	=====	=====	=====	=====	=====

### Note 5. Impact of Recently Issued Accounting Statements

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" which addresses financial accounting and reporting for recording expenses for the fair value of stock options. SFAS 148 provides alternative methods of transition for a voluntary change to fair value-based method of accounting for stock-based employee compensation. Additionally, SFAS 148 requires more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. ANZA has elected to continue to apply the intrinsic value-based method of accounting as allowed by APB 25 for employee stock-based compensation. The disclosure effects of SFAS 148 are not significant to ANZA and no grants were made to employees during the six months ended October 31, 2005 and October 31, 2004.

8

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with SFAS 150, financial instruments that embody obligations for the issuer are required to be classified as liabilities. SFAS 150 shall be effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company's implementation of SFAS 150 did not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 153, "Exchanges of Nonmonetary Assets," ("SFAS 153") an amendment to Accounting Principle Board Opinion No. 29, "Accounting for Nonmonetary Transactions" ("APB 29"). SFAS 153 eliminates certain differences in the guidance in APB 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to APB 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS 153 to have a material impact, if any, on the Company's consolidated financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) amends SFAS 123, "Accounting for Stock-Based Compensation", and APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123(R) requires that the cost of



Edgar Filing: ANZA CAPITAL INC - Form 10-Q

share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the company's shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of a company's shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the first interim period or fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning after June 15, 2005, or (3) for all nonpublic entities, as of the first fiscal year beginning after December 15, 2005. In March 2005, the SEC announced it will permit companies to delay implementation until the beginning of their next fiscal year, instead of the next reporting period. Management has determined that they will adopt SFAS 123(R) as of the beginning of their next fiscal year, and is currently assessing the impact of this statement on its consolidated financial position and results of operations in 2006. In the interim, the Company is continuing to use the intrinsic value method in estimating employee stock compensation expense based on the fair value method of accounting. This method is allowed under SFAS 148, which amended SFAS 123 in December 2002.

In May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), that addresses accounting for changes in accounting principle, changes in accounting estimates and changes required by an accounting pronouncement in the instance that the pronouncement does not include specific transition provisions and error correction. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle and error correction

9

unless impracticable to do so. SFAS 154 states an exception to retrospective application when a change in accounting principle, or the method of applying it, may be inseparable from the effect of a change in accounting estimate. When a change in principle is inseparable from a change in estimate, such as depreciation, amortization or depletion, the change to the financial statements is to be presented in a prospective manner. SFAS 154 and the required disclosures are effective for accounting changes and error corrections in fiscal years beginning after December 15, 2005.

Note 6. Loans Held for Sale

Loans held for sale consisted of conventional uninsured mortgages originated by the Company, with various interest rates. The mortgage banking operations of AMRES was discontinued as of May 31, 2005 due to non-renewal of the warehouse line of credit. Details of the loans as of April 30, 2005 were as follows:

Loans Range	October 31, 2005			Number of Loans	Apr
	Number of Loans	Total Loan Amount	Average Interest Rate		
\$20,000 to \$100,000	--	--	--	4	\$
\$100,001 to \$200,000	--	--	--	3	

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

\$200,001 to \$300,000	--	--	--	2
\$300,001 to \$400,000	--	--	--	1
Over \$400,000	--	--	--	8
	-----	-----		-----
Deferred Fees net of cost	--	\$ --		18
		-----		
		\$ --		
		=====		

Note 7. Warehouse Line of Credit

The Company maintained a \$10,000,000 warehousing line of credit dated May 20, 2004, which expired on May 31, 2005. The agreement was guaranteed by ANZA and its Chief Executive Officer. In addition, the agreement increased the various ratios and net worth requirements, minimum utilization requirements, and limits the warehouse period from 45 to 60 days depending on the type of loan. The interest rate was adjustable, based upon a published prime rate, plus an additional 0.5% to 2% and was payable monthly. In addition, the Company was required to pay a commitment fee equal to one quarter of 1% (.25%) per annum on the average unused credit limit if the usage of the line falls below 50% of the credit limit on an average basis, calculated monthly. The rate varies depending on the type of loan (conforming or non-conforming) with higher rates on non-conforming loans. The line of credit was collateralized by the loans held for sale. As of May 31, 2005 the Company lost the warehouse line of credit because AMRES could not get the Error and Omissions coverage with the deductible set by the bank's guidelines.

All loans held for sale were sold during the quarter ended October 31, 2005. The loans were charged the post maturity interest rate of 10.50% therefore creating a negative spread between the interest income collected from the borrower and the interest paid.

10

Note 8. Accrued Liabilities

Accrued liabilities consist of the following :

	October 31, 2005 (unaudited)	April 30, 2005
Accrued salary and benefits	\$ 314,431	\$ 352,721
Accrued loss contingencies	1,248,526	887,052
Accrued professional fees	316,435	312,500
Accrued interest	2,495	41,289
	-----	-----
	\$1,881,887	\$1,593,562
	=====	=====

During the quarter, our Chief Executive Officer elected to defer a portion of his compensation. As of October 31, 2005, the total amount deferred is \$18,000. This amount is reflected as accrued salary and benefits on the consolidated financial statements.

Note 9. Unsecured Line of Credit

The Company maintains a \$75,000 unsecured line of credit. The line of credit is personally guaranteed by ANZA's chief executive officer. The interest rate is adjustable, based upon a published prime rate, plus an additional 7.75%. As of October 31, 2005, the Company had \$70,868 outstanding related to this line of

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

credit.

### Note 10. Issuance of Convertible Notes and Warrants by a Subsidiary

On October 11, 2004, the Company issued a secured convertible note payable totaling \$125,000 to AMRES Holding, LLC, a related party partially owned and controlled by the Company's Chief Executive Officer. The note is secured by substantially all of AMRES' assets. Interest on this note is payable quarterly beginning on January 1, 2005 at 12% per annum, and the note matures on October 11, 2006. The note is convertible into the Company's common stock at 75% of the average closing bid price for the five days preceding the date of the conversion notice. As additional consideration, the Company issued a warrant to AMRES Holding, LLC to purchase 250,000 shares of the Company's common stock at \$0.10 per share. The warrant is exercisable at any time between the closing date and a date which is five years from the closing date. The Company allocated the proceeds of the note to the note and warrants based on their relative fair values, resulting in a discount related to the warrant of \$10,175. The discount is being amortized over the life of the note. As the conversion feature of the note at the time of issuance was beneficial to the holder, the Company recorded a discount on the note of \$57,413. The discount is being amortized over the term of the note as interest expense. During the quarter ended July 31, 2005, the note was fully repaid, and the unamortized discount of \$17,185 was immediately charged to interest expense.

On January 18, 2005, the Company issued a convertible note payable to a private investor totaling \$55,000. The Company received proceeds, net of all costs and fees, in the amount of \$47,980. Interest on this note is payable monthly at 10% per annum, and the note matures on June 15, 2005. The note is convertible into shares of AMRES common stock at 50% of the bid price of AMRES common stock as reported on the Pink Sheet Market for the three trading days immediately preceding the date of the conversion notice. As the conversion feature of the note at the time of issuance was beneficial to the holder, the Company recorded a discount on the note of \$55,000. The discount is being amortized over the term of the note as interest expense. During the year ended April 30, 2005, \$17,500

11

of this convertible note payable was converted into 2,000,000 shares of AMRES common stock. The unamortized discount amount of \$7,621 at the time of conversion was immediately charged to interest expense. The convertible note payable matured on June 15, 2005 and the discount was fully amortized on the same day. The Company is currently in the process of negotiation with the note payable holder on repayment.

On February 10, 2005 the Company issued convertible notes payable to two private investors totaling \$14,000 and \$14,000. Interest on these notes are payable monthly at 8% per annum, and the notes mature on February 10, 2006. Both notes are immediately convertible into shares of AMRES common stock at a price equal to 50% of the average market price for the last three days prior to the conversion notice. As the conversion features of the notes at the time of issuance were beneficial to the holders, the Company recorded a discount on the notes of \$14,000 and \$14,000, respectively. The discounts are being amortized over the term of the notes as interest expense. During the year ended April 30, 2005, \$0 and \$4,500, respectively, of these convertible notes payable were converted into 0 and 525,862 shares, respectively, of AMRES common stock. The unamortized discount amount of \$0 and \$3,375, respectively, were immediately charged to interest expense. At October 31, 2005, the unamortized discounts amounted to \$3,500 and \$125, respectively, and are reflected as reductions in the convertible notes payable balance.

### Note 11. Earnings (Loss) Per Common Share

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

ANZA presents basic earnings per share ("EPS") and diluted EPS on the face of the consolidated statement of operations. Basic EPS is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock options, warrants, and other convertible securities. Dilutive securities, including the Series D Convertible Preferred Stock and the Series F Convertible Preferred Stock, were not included in the computations of loss per share for the three months and six months ended October 31, 2005 and 2004 since their effects are anti-dilutive.

### Note 12. Stockholders' Equity

From time to time, the Company's board of directors authorizes the issuance of common stock. The Company values shares of common stock based on the closing ask price of the securities on the date the directors approve such issuance. In the event the Company issues common stock subject to transferability restrictions under Rule 144 of the Exchange Act of 1933, the Company discounts the closing ask prices by 10% to value its common stock transactions. No such issuances occurred for either period presented.

During the quarter ended July 31, 2005, the company issued a total of 32,900 shares of common stock valued at \$1,760 as a payment of dividends on the Series F convertible preferred stocks.

During the quarter ended July 31, 2005, 51,250 common shares issued to Jeff Hemm were cancelled as a result of the legal settlement. See Note 14 on Contingencies, Settlements and Resolved Matters.

12

### Note 13. Other Equity Transactions

#### Viking Investments Common Stock Purchase Agreement

On September 19, 2005, the Company entered into a Common Stock Purchase Agreement whereby Vince Rinehart, a shareholder and the Company's sole officer and director ("Rinehart") and AMRES Holding, LLC, a Nevada limited liability company under control of Rinehart ("AMRES Holding") will sell a total combined amount of 10,279,369 shares of the Company's common stock and warrants to purchase a total of 3,450,000 shares of the Company's common stock (the "Securities"), to Viking Investments USA, Inc., a Delaware corporation ("Viking"), on or about December 30, 2005, for an aggregate purchase price of \$375,000. Viking does not bear a related-party relationship to Anza or its management.

#### Gaulds Transaction

On September 23, 2005, the Company received a signed Securities Purchase Agreement dated September 16, 2005 from Peter and Irene Gauld (the "Gaulds"), by and between AMRES Holding and the Gaulds, whereby the Gaulds will sell to AMRES Holding, on or about December 30, 2005, warrants to acquire 2,000,000 shares of the Company's common stock in exchange for the total purchase price of \$10,000. The Gaulds do not bear a related-party relationship to the Company or its management.

#### Asset Sale Agreement

On September 30, 2005, the Company entered into a Reorganization, Stock and Asset Purchase Agreement by and among the Company and AMRES, on the one hand, and Rinehart and AMRES Holding, on the other hand, whereby the Company

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

will sell substantially all of its assets to AMRES Holding, on or about December 30, 2005, including but not limited to all of the Company's ownership interest in its subsidiary, AMRES, in exchange for (i) the termination by Rinehart, the managing member of AMRES Holding, of that certain Employment Agreement dated June 1, 2001, by and between Rinehart and the Company, including the waiver of \$500,000 in severance thereunder and (ii) the assumption by AMRES of all obligations under that certain real property lease by and between the Company and Fifth Street Properties-DS, LLC. In conjunction with the abovementioned exchange, the following transactions are to occur: (i) the delivery by Rinehart, a shareholder and the sole officer and director of the Company, of his entire ownership interest in the Company, consisting of 988,275 shares of common stock, and 18,800 shares of Series F Convertible Preferred Stock, to Viking; (ii) the delivery by AMRES to Viking of its ownership interest in the Company, consisting of 4,137,500 shares of Company common stock; and (iii) delivery by AMRES Holding of warrants to acquire 250,000 shares of the Company's common stock to Viking. Since this agreement is contingent upon the closing of certain other securities purchase agreements, the Company will not record the impact of this transaction until the related securities purchase agreements, as discussed above and below, close.

### Series D Preferred Stock and Common Stock Transaction

On September 30, 2005, AMRES Holding entered into a Stock Purchase Agreement with Cranshire Capital, L.P. ("Cranshire"), The dotCom Fund, LLC ("dotCom"), and Keyway Investments, Ltd. ("Keyway") (each a "Seller" and collectively the "Sellers"), whereby the Sellers will sell to AMRES Holding, on or about December 30, 2005, an aggregate of 3,043,945 shares of the Company's common stock, 8,201.5 shares of the Company's Series D Preferred stock, and warrants to purchase 750,000 shares of the Company's common stock, in exchange for the total purchase price of \$125,000. The Sellers do not bear a related-party relationship to Anza or its management. These securities will all be sold to Viking pursuant to the terms of Common Stock Purchase Agreement as reported above.

13

### GunnAllen Transaction

On October 12, 2005, the Company received a signed Securities Purchase Agreement dated September 16, 2005, by and between AMRES Holding and GunnAllen Financial, Inc., a Florida corporation ("GunnAllen"), whereby GunnAllen will sell to AMRES Holding, on or about December 30, 2005, warrants to acquire 450,000 shares of the Company's common stock in exchange for the total purchase price of \$5,000. GunnAllen does not bear a related-party relationship to Anza or its management

### Note 14. Contingencies

#### Indemnifications

On December 9, 2002, the Company received notification from HUD requesting indemnification on up to 23 loans brokered by a former loan officer of the Company. AMRES executed and provided an indemnification agreement to HUD, as requested. On February 13, 2003, HUD notified AMRES that (i) without the loans originated by this particular loan officer, AMRES' default and claim rate would be an acceptable level to HUD, and (ii) as a result of the termination of that loan officer, and the execution of the indemnification agreement, the matter was closed.

During the year ended April 30, 2004, the Company received two demands for payment from HUD on claims totaling approximately \$170,000. The first demand involved losses on five properties and the second demand involved losses on an

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

additional property. All six properties were part of the original 23 properties referred to above. The Company carries errors and omissions insurance coverage, however, the Company received notification from their errors and omissions insurance carrier that their claim for coverage was denied. As a result of this denial, the Company estimated that their total potential liability under the indemnification agreement is approximately \$300,000.

To date, the Company received demands for payments in the approximate amount of \$250,000 and has paid all of the outstanding balance except for \$110,000 for which the Company is requesting a partial credit of \$60,000 from HUD. The \$60,000 represents a surplus that HUD received on the sale of two of the indemnified properties.

In May 2005, HUD conducted another audit of approximately 11 loan files originated by two of the company's branches in Riverside County, California. The Company recently received the findings from this audit, and while there were various minor discrepancies noted, there were only a few nominal monetary assessments against the Company.

### State Audits

The Company is subject to certain state audits, which are typical in this industry. Often these audits uncover instances of non-compliance with various state licensing requirements. These instances of non-compliance may also translate into a particular state levying a fine or penalty against the Company along with the Company refunding any overpaid fees to the borrower. During the year ended April 30, 2004, the Company resolved actions with the states of Arizona, Kansas, Nevada and Virginia paying settlements totaling \$93,000. The Company believes it is likely that a total of an additional \$25,000 in the accompanying balance sheet as of April 30, 2004, which management believes is sufficient to cover any liability related to the audits. Subsequent to April 30, 2004, the company paid \$145,170 in state and HUD audit settlement.

14

In June 2005, the Company was audited by the State of Virginia. The Company received the results of this audit and there were only minor issues raised and nominal fines assessed.

### Settlements or Resolved Matters

In November 2003, a former employee filed a lawsuit against the Company, the Chief Executive Officer of the Company, and AMRES. The Complaint alleged breach of contract and fraud arising out of the plaintiff's employment with the Company, and requested damages in excess of \$5,000,000, plus attorney fees, interest, penalties, and punitive damages. The trial date was continued until December 6, 2004, but the matter was settled through mediation on November 24, 2004. During the quarter ended July 31, 2005, 51,250 common shares issued to Jeff Hemm were cancelled as a result of the legal settlement. By the terms of the settlement agreement, the amount of the settlement is confidential but the terms were very favorable and resulted in no material impact to the Company.

On June 1, 2004, the Company agreed to settle a claim by a lender who sought recovery on two loans involving alleged misrepresentation by the borrowers. The claims were for amounts of approximately \$200,000. On or about June 1, 2004, the Company executed a settlement agreement for a total amount of \$120,000, with an initial payment of \$60,000 on June 1, 2004 and subsequent monthly payments of \$10,000 for six months. The \$120,000 is accrued in the financial statements as of April 30, 2004. Subsequent to the quarter ended July 31, 2005, the Company has paid this obligation in full.

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

During the current fiscal year, a lender requested that the Company reimburse them for two loans which went into default and were subsequently sold for a \$150,000 loss. The loans were brokered by a branch of the Company. On July 19, 2004, the Company settled with the lender agreeing to make monthly payments of \$10,000 starting on August 1, 2004 until a total of \$138,000 was paid. As of April 30, 2005, the Company had paid \$80,000 related to this settlement, with the balance of \$58,000 included in accrued liabilities in the accompanying consolidated balance sheet. This matter was recently settled without any further financial impact on the Company.

In October 2003, a former employee filed a lawsuit against the Company, the Company's Chief Executive Officer and AMRES. The Complaint alleged breach of contract and fraud arising out of the plaintiff's employment with the Company and requested damages in excess of \$2,000,000, plus attorney fees, interest, penalties, and punitive damages. The trial date was continued until March 2005, but the matter was settled through mediation on February 17, 2005. By the terms of the settlement agreement, the settlement amount is confidential, but the terms were favorable and resulted in no material impact to the Company.

On or about July 3, 2003, the Company filed a complaint against a former branch manager and filed an Amended Complaint on or about October 16, 2003. The allegations included breach of written contract; intentional and negligent misrepresentation; misappropriation of trade secrets; interference with economic relations; violation of Business & Professions Code 17200; breach of implied covenant of good faith and fair dealing; conversion and conspiracy. The defendant filed a cross-complaint against the Company alleging that the Company misclassified her employment status and that the Company was liable for money advanced on its behalf of approximately \$250,000. The entire matter was settled on or about March 4, 2005. The terms of the settlement are confidential but were very favorable and resulted in no material impact to the Company.

15

On December 11, 2003, a competitor of the Company filed a suit alleging intentional interference with contract, conversion and trade name infringement, among other causes of action. The case settled through mediation in June 2005. The settlement agreement imposes a duty of good faith to refer at least one loan per month (on a broker basis) to the plaintiff until \$8M in loan volume has been funded. Since the average loan amount to \$400,000 approximately 20 loans will need to be referred and funded. The agreement does not contain a liquidated damages clause.

On or about May 18, 2004, a former assistant in one of the Company's branches filed a complaint alleging violations of California Labor Code Sections 202 and 203, claiming that the plaintiff was owed back commissions. The Company believes that this claim lacks merit as the plaintiff was not licensed at the time of her claims and thus not entitled to any commissions by law. This case settled on April 1, 2005 after a mandatory settlement conference. The Company was not impacted by this settlement.

On or about September 7, 2004, a complaint was filed against the Company and its Chief Executive Officer alleging fraud, negligent misrepresentation and a promise made without intent to perform. The amount of damages claimed is approximately \$250,000. On March 11, 2005, the Court sustained (without leave to amend) Defendants' Demurrer to plaintiff's Complaint. On May 25, 2005, the Court entered a Judgment of Dismissal of the entire action in the defendant's favor.

In May of 2004 a borrower filed suit against the Company, a branch manager and an individual, for allegations of fraud amongst other causes of action. The suit alleges that the individual named Paul Robertson deceived the borrowers who were seeking a construction loan to build a house on a vacant lot. The

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

plaintiffs claim that they never received the house or the funds to construct the house and are seeking "compensatory damages exceeding \$75,000" and "punitive damages exceeding \$75,000". The plaintiffs are also seeking "reasonable attorneys' fees and costs. The Company is defending on the grounds that Robertson was not their agent and to the extent that he and the agent were somehow defrauding borrowers, it was being done outside of the course and scope of any agency relationship with the Company. The Company believes that the case lacks merit and is defending vigorously. This case has just recently settled but the company's insurance carrier has indicated that it will be seeking a portion of the \$215,000 it paid towards the settlement as an offset for claims it asserts are uncovered under the company's policy.

On or about September 20, 2004, a Class Action Complaint was filed, alleging the Company sent unsolicited advertisements to fax machines in violation of TCPA 47USC section 227. The Company is defending vigorously and also tendered the matter to People's Home Loans (a company owned by a former branch manager of the Company) for indemnification, as they were responsible for the actions that are subject to the Complaint. The Company recently received an indication that this matter will be resolved with nominal financial impact to the Company.

On June 8, 2005 a former consultant of the Company filed a complaint alleging that the Company owes him \$125,000 plus attorneys' fees due to a breach of contract. The Company defended vigorously and filed a Cross-Complaint against the plaintiff, as the Company believed that the plaintiff fraudulently induced the Company into entering into the contract in the first place. This matter recently settled, a formal settlement agreement has been executed and dismissals of the complaint and cross-complaint have been filed.

16

On June 17, 2005 a Lender filed a Complaint against the Company alleging \$70,000 in damages resulting from the Company breaching a repurchase agreement. The Company vigorously defended the matter and filed a Cross-Complaint against the Lender, the Lender's President and one of the Lender's executives, as the Company believed that the Cross-Defendants induced the Company into entering into the repurchase agreement under false pretenses. The Company also believed that Cross-Defendants should have been forced to return the amounts already paid out by the Company on the repurchase agreement. The matter has settled and all formal settlement agreements have been executed.

### Active Litigation

On January 23, 2004, a former employee filed a claim against the Company in the Superior Court of California, for the County of Orange. The Complaint alleged breach of oral contract, claimed damages arising out of the plaintiff's employment with the Company, and requested damages in excess of \$50,000 plus attorney fees, interest, penalties and punitive damages. On February 17, 2005, the Court granted the Company's Motion for Summary Adjudication and dismissed all but one cause of action. The Court recently granted the Company's Motion for Summary Adjudication as to the final cause of action and dismissed the case. The Company believes the Plaintiff may be considering an appeal.

On November 6, 2003, a borrower filed claim against the Company in the Superior Court of California, City and County of Alameda. Amongst others also named as defendants in this matter, is a former Loan Officer in the Company's San Francisco Branch Office. The complaint alleges fraudulent inducement of contract, rescission, conversion and negligence. Plaintiff's claim is for a total amount of \$121,000 but the Company believes that the plaintiff has not shown any viable claim through the discovery process and believes that the Company will prevail at trial or even at a pretrial motion for Summary Judgment.



## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

In June 2004, an Orange County, California based landlord filed a lawsuit was filed against the Company. The suit alleges that the Company breached a building lease and claims damages for the entire term of the lease through August 2007 of \$886,332. The Company filed an Answer to the Complaint and a Cross-Complaint against a former Branch Manager and his business associate who signed the lease in question purporting to be officers of the corporation. The Company believes that this matter lacks merit and is defending vigorously in order to assure that the proper parties be accountable for any damages that are due the plaintiff. The Company obtained information and believes that the office leases, which are the subject of this litigation, have been re-leased to new tenants and that fact alone significantly reduces any damages to the plaintiff.

On or about July 30, 2004, a borrower filed a complaint against the Company, alleging violations of Michigan Consumer Protection Act, breach of contract, and intentional infliction of emotional distress. The Company believes that there are third parties that, at the very least, share in the liability to the plaintiff and is vigorously seeking to show same through the formal discovery process.

On or about November 10, 2004 a complaint was filed against the Company alleging breach of contract and warranty; deceptive trade practices; fraud; conversion; negligence; breach of fiduciary duty; unjust enrichment and conspiracy. The Complaint alleges damages in the approximate amount of \$295,000. The Company is defending vigorously and has information and belief that there are third parties that will ultimately have liability in this matter and that plaintiff will also be found to share in the liability for its own damages. The plaintiff has expressed an interest in mediating the matter to a resolution.

17

On or about November 24, 2004, a Class Action case was filed against the Company, one of its former Branch Managers, and a third party entity, Spectrum Funding Group, Inc., which is operated by said former Branch Manager. The Complaint alleges damages & equitable relief for violations of the California Labor Codes; and California Unfair Business Practices Act. The matter was tendered to the former Branch Manager for indemnification based on his contract with the Company. The Company believes that the matter lacks merit and is defending vigorously. The Company believes that this matter will likely be resolved with a nominal financial impact on the Company.

On or about December 15, 2004, a former loan officer filed a complaint against the Company, alleging Breach of Contract and Conversion. The Company believes that the matter lacks merit and is defending vigorously. The Company has had very positive informal negotiations with plaintiff and his counsel and believes that the two sides are very close to resolving this matter without a significant financial impact on the Company.

On March 31, 2005 a borrower filed a Complaint against the Company, as well as, an Investor of the Company and a Company to whom said Investor sold plaintiff's loan. The Complaint alleges Fraud; RESPA (12 U.S.C.A. section 2601 and TILA (15 U.S.C.A. section 1601 and its Regulation Z) violations. Defendants have filed for removal of case to Arbitration and are vigorously defending.

On April 22, 2005 an individual filed a Complaint against the Company and third parties, alleging counts of fraud, conversion, intentional infliction of emotional distress, (MCPA) MCL 445.901, (CSPA) MCL 445.1822(b), temporary & permanent injunction, breach of fiduciary duty, allegations of MCLA 440.3420 - conversion and negligence. The Company is defending vigorously and is preparing a motion for summary judgment requesting that the Court dismiss the Company as it is never closed a transaction for the individual and received no compensation from the company that did close a transaction for the individual.

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

On May 2, 2005 a Lender filed a Complaint against the Company alleging money agreements between the parties were breached. The Complaint states that plaintiff is owed \$50,531 in monetary damages and attorneys' fees in the amount of \$2,165. The Company is defending vigorously and believes that it will show that plaintiff is not entitled to any money from the Company.

On July 26, 2005 a Lender filed a Complaint against the Company alleging breach of contract, negligence, and negligent misrepresentation. The Complaint alleges damages in excess of \$25,000, punitive damages, attorney's fees, interest and costs. Plaintiff has provided actual damage estimates in the range of \$300,000 to \$350,000. The complaint involves approximately 14 loans that allegedly originated at a former branch of the company in Michigan. Although the matter was recently filed, the company believes that substantial liability in this case wrests with the plaintiff itself as well as various individuals that were employed by the company but were acting outside the course and scope of their employment in relationship to the alleged damages suffered by plaintiff. The Company recently received a notice that its insurance carrier is denying coverage for this case. The Company will be appealing the denial while it continues to defend the matter.

18

On June 22, 2005, a Class Action Complaint was filed alleging that American Residential Funding unlawfully used a telephone facsimile machine to send at least one (1) unsolicited advertisement (unsolicited fax) defined in and in violation of the TCPA, 47 U.S.C., section 227(a) (4).

On June 28, 2005 a Complaint was filed alleging violations of the following: Truth and Lending, Michigan Credit Services Protection Act, Michigan Home Solicitation Sales Act, Michigan Consumer Protection Act, Mortgage Brokers, Lenders & Servicers Act and Usury.

On September 6, 2005, a Complaint was filed by a Lender alleging breach of contract and negligence as to Defendant AMRES stating that due to misrepresentation or fraud contained in the loan files AMRES has breached the "Lending Agreement" filed a complaint against the Company. The claim involves alleged deficiencies with as many as 80 loans with alleged damages in the range of \$400,000 to \$450,000. The Company also received a notice that its insurance carrier is denying coverage for this case. The Company will be appealing this denial as well. The Company believes that it has valid defenses and is defending the case vigorously.

On September 26, 2005 a complaint alleging breach of contract was filed stating that defendant AMRES breached the terms contained within the AMRES Branch Operating and Management Agreement as follows: failure to provide the necessary qualifications and licensing from the Arizona State Banking Department; failure to provide and maintain qualified responsible individuals to represent AMRES; inability and failure to handle, process, and close residential loans in a timely manner; change of branch lender status without prior notice; charging loan fees which were in excess of the agreed fee structure.

On August 24, 2005 a complaint was filed, alleging unpaid commissions in an amount exceeding \$120,000, as well as, violations of Colorado Wage Statute, CRS section 8-4-109. The Complaint also seeks attorney's fees, penalties and punitive damages, interest and costs pursuant to CRCP 16.1(c). The Company will be defending the matter vigorously and will be seeking to have the case transferred to California. The contract upon which the Complaint is based provides for the proper venue for such contract claims to be in Orange County, California, where the Company is based.

ITEM 2 Management's Discussion and Analysis or Plan of Operation

This Form 10-Q report may contain forward-looking statements which involve risks and uncertainties. Such forward-looking statements include, but are not limited to, statements regarding future events and the Company's plans and expectations. The Company's actual results may differ significantly from the results discussed in forward-looking statements as a result of certain factors, including those discussed in the Company's Form 10-K for the period ended April 30, 2005, the Company's 10-Q for the period ended July 31, 2005, and this report. The Company expressly disclaims any obligations or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations or any events, conditions or circumstances on which any such statement is based.

OVERVIEW

We are a holding company which currently operates primarily through one (1) active subsidiary.

- o American Residential Funding, Inc., a Nevada Corporation (AMRES) provides home financing through loan brokerage and banking

Inactive Subsidiaries

- o Titus Real Estate, LLC, a California limited liability company (Titus Real Estate) is currently non-operational.
- o Bravo Realty.com, a Nevada Corporation (Bravo), was a real estate sales company focused solely in California. Bravo Real Estate Services, Inc. (Bravo Real Estate Network) and Bravo Realty.com were sold in April, 2005.

Discontinued Operations:

- o AMRES Direct, Inc., formerly Red Carpet Holdings, Inc., was activated in 2004 to focus on direct-to-consumer marketing. The Company has not generated revenue and has incurred minimal expenses.
- o Expidoc.Com, a California Corporation (Expidoc) arranged for notaries to provide document signing services for lenders across the country. Effective January 31, 2004, we suspended operations at Expidoc. This decision was a result of a sudden shift in customer mix, as Expidoc's largest customer (Ditech.com) ceased using Expidoc as a third party provider of notary services.

As shown below, AMRES has consistently provided the majority of our consolidated revenue. The industry in which AMRES operates can be highly volatile and is largely dependent on interest rates.

Percentage of Total Revenues by Service

	% YTD Revenue October 31, 2005	% YTD Revenue October 31, 2004
	-----	-----
Loan Brokering	99.88%	97.0%

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Mortgage Banking	.12%	1.07%
Real Estate Brokerage	.00%	1.93%
Total	100.00%	100.00%

### CRITICAL ACCOUNTING POLICIES

Anza's consolidated financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires the use of estimates, assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in the external disclosures of Anza, including information regarding contingencies, risk and financial condition. Anza believes its use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. Valuations based on estimates are reviewed for reasonableness and conservatism on a consistent basis throughout Anza. Primary areas where financial information of Anza is subject to the use of estimates, assumptions and the application of judgment include losses on loans held for sale and indemnifications associated with loans brokered. In addition, we are subject to litigation in the normal course of business. We assess the probability and financial exposure when determining when a liability for losses should be recorded. In addition, the recoverability of deferred tax assets must be assessed as to whether these assets are likely to be recovered by Anza through future operations. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

#### Revenue Recognition

Commissions generated from brokering loans are recognized at the date of settlement. Loan origination fees are deferred and recorded upon the sale of loans to third parties without recourse, and whereby ANZA has no continuing involvement.

#### Loans Held for Sale

Loans held for sale represent mortgage loans originated and held by AMRES, pending sale, to interim and permanent investors. AMRES sells loans it originates, typically within 30 days of origination, rather than holding them for investment. AMRES sells loans to institutional loan buyers under existing contracts. AMRES sells the servicing rights to its loans at the time it sells those loans. Typically, AMRES sells the loans with limited recourse. This means that, with some exceptions, the Company reduces its exposure to default risk at the time it sells the loan, except that it may be required to repurchase the loan if it breaches the representations or warranties that it makes in connection with the sale of the loan, in the event of an early payment default, or if the loan does not comply with the underwriting standards or other requirements of the ultimate investor. In the event AMRES is required to repurchase a loan, management will assess the impact of losses, which results from a repurchased loan. To date, no loans have been repurchased which were

originated, funded and sold by AMRES; however, the Company has participated in settlements for damages as a result of default loans. The mortgage banking operations have been discontinued as of May 31, 2005 because of the closure of the warehouse line of credit due to AMRES inability to meet the maximum

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

deductible requirement for the errors and omissions insurance. All loans were sold as of the quarter ended October 31, 2005.

Gains and losses on loans sold are recognized at the time legal title transfers to the investor based upon the difference between the sales proceeds and the basis of the loan sold. Basis in the loans held for sale includes the cost of the loan, less loan and processing fees charged to the borrower, plus certain direct costs. The mortgages are carried at the lower of cost or market as determined by outstanding commitments from investors or current investor yield requirements calculated on the aggregate loan basis. Management evaluates impairment of loans held for sale based on their estimated fair value. If impairment exists, AMRES records a charge to earnings. During the quarter ended October 31, 2005, AMRES realized a net gain on the sale of loans of \$22,888.

### Income Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We review our deferred tax assets for recoverability and establish a valuation allowance based upon historical losses, projected future taxable income and the expected timing of the reversals of existing temporary differences. During the three months ended October 31, 2005 and 2004, we estimated the allowance on net deferred tax assets to be one hundred percent (100%) of the net deferred tax assets.

### RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED OCTOBER 31, 2005 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2004

#### Introduction

Interest rates have continued to put downward pressure on revenues. Our cost containment measures have been unable to fully offset the impact of our reduced revenues.

	Quarter Ended October 31, 2005 -----	Quarter Ended October 31, 2004 -----	Dollar Change -----	%
Revenues	\$ 12,537,199	\$ 12,404,795	\$ 132,404	
Gross Profit %	32.30%	24.89%	N/A	
General and Administrative Expenses	2,853,129	3,947,261	(1,094,132)	(2)
Selling and Marketing	1,183,998	439,454	744,544	16
Net Income (Loss) available to common stockholders	(517,167)	(1,316,925)	799,758	6

22

#### Revenues

Out of revenues of \$12,537,199 for the quarter ended October 31, 2005, \$12,514,311 or 99.88% were generated from broker commissions, compared to total revenues of \$12,404,795 and revenues from broker commissions of \$11,964,772

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

(96.45%) for the quarter ended October 31, 2004. Out of revenues of \$13,494,852 for the quarter ended July 31, 2005, \$13,486,668, or 99%, were generated from broker commissions. Total revenues increased by \$132,404 or 1.07% for the quarter ended October 31, 2005 compared to the quarter ended October 31, 2004. The increase in revenues compared to last year directly related to the increase of property values and loan amounts, while the decrease in revenues compared to last quarter is directly related to the overall decline in the refinance market.

AMRES is the only active subsidiary under ANZA and has generated 100% of the revenues this quarter.

### Cost of Revenues

Cost of revenues are comprised of salaries to employees along with commissions. Commissions are paid on loans funded. Other costs include other various loan related expenses, such as referral fees, processing fees, underwriting fees, and other miscellaneous fees related to brokered revenues. Cost of revenues decreased by \$829,001 or 9.9%, for the quarter ended October 31, 2005, to \$8,488,063 from \$9,317,064 for the quarter ended October 31, 2004. Cost of revenues for the quarter ended July 31, 2005 were \$9,677,118. Notary and other costs associated with Expidoc.com and Bravorealty.com decreased by \$254,885, or 100%. These decreases compared to last year are directly related to the discontinued operations of Expidoc.com and the transfer of ownership of bravorealty.com, while the decrease from last quarter is directly related to an overall decrease in operations and loan volume.

Consolidated gross profit increased by \$961,405 or 31.1% for the quarter ended October 31, 2005 to \$4,049,136 from \$3,087,731 for the quarter ended October 31, 2004. Consolidated gross profit for the quarter ended July 31, 2005 was \$3,817,734. As a percentage of revenue, the gross profit increased by approximately 7.41% compared to last year. The increase in the gross profit compared to last year as well as last quarter was attributable to the decrease in commissions paid and more of the income residuals were transferred to branch accounts. The increase of the gross profit as a percentage of the revenue compared to last year was due to decreased commissions paid and increase in rebates from lenders

### General and Administrative Expenses

General and administrative expenses totaled \$2,853,129 for the quarter ended October 31, 2005, compared to \$3,947,261 for the quarter ended October 31, 2004 and \$2,870,083 for the quarter ended July 31, 2005. This decrease of \$1,094,132 compared to last year, can be directly attributed to decrease in branch personnel expenses and branch management expenses and reduction of corporate staff.

### Selling and Marketing Expense

Selling and marketing expense relates primarily to costs incurred for prospecting activities to obtain new clients (borrowers). These costs include acquiring "leads" which translate into funded loans. Selling and marketing expenses for the quarter ended October 31, 2005 amounted to \$1,183,998 compared to \$439,454 in the quarter ended October 31, 2004 and \$1,039,071 for the quarter ended July 31, 2005. We may see increased spending in this area in future periods as the marketplace for qualified borrowers becomes more and more competitive.

### Interest Expense

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Interest expense was \$37,740 as of October 31, 2005, compared to \$65,180 as of October 31, 2004 and \$382,228 for the quarter ended July 31, 2005. Interest expense is primarily related to interest paid on our warehouse line of credit. The line of credit was not renewed upon maturity on May 31, 2005 due to Anza's inability to meet the errors and omissions maximum deductible guideline of the warehouse line provider. The decrease in the interest expense compared to last year was due to the discontinued operations of the mortgage banking division of AMRES. The increase in interest expense for the quarter ended July 31, 2005, was also attributed to the amortization of discounts related to Series G Preferred stocks totaling \$281,322.

### Income Taxes

Our income taxes have not been material during the periods presented because of utilization of Anza's net operating loss carryforwards for federal income tax reporting purposes. California suspended net operating losses usage for fiscal 2004 and 2005. The Company has no significant current or deferred income tax expense during the periods presented.

### Net Income (Loss)

We realized a net loss of \$517,167 for the quarter ended October 31, 2005 compared to a net loss of \$1,316,925 for the quarter ended October 31, 2004 and \$490,869 for the quarter ended July 31, 2005. The decrease compared to last year was due to reduction of costs.

### RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED OCTOBER 31, 2005 COMPARED TO THE SIX MONTHS ENDED OCTOBER 31, 2004

#### Introduction

Our revenues, general and administrative expenses, selling and marketing expenses, and net income (loss) for the six months ended October 31, 2005 and 2004 are as follows:

	Six Months Ended October 31, 2005 -----	Six Months Ended October 31, 2004 -----	Dollar Change -----
Revenues	\$ 26,032,051	\$ 26,028,728	\$ 3,323
Gross Profit %	30.2%	22.7%	N/A
General and Administrative Expenses	5,723,212	6,272,649	(549,437)
Selling and Marketing	2,223,069	901,216	1,321,853
Net Income (Loss) available to common stockholders	\$ (1,009,796)	\$ (1,265,660)	\$ (255,864)

#### Revenues

Total revenues increased by \$3,323 for the six month ended October 31, 2005 as compared to the six month ended October 31, 2004. Revenues remained relatively flat because of the impact of increased interest rates on our volume of refinancing business, offset by an increased average loan size as a result of increased property values in most regions of the country.

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

### Cost of Revenues

Cost of revenues are comprised of salaries to employees along with commissions. Commissions are paid on loans funded. Other costs include other various loan related expenses, such as referral fees, processing fees, underwriting fees, and other miscellaneous fees related to brokered revenues. Cost of revenues decreased by \$1,960,911 for the six months ended October 31, 2005 compared to the six months ended October 31, 2004. These decreases compared to last year are directly related to the discontinued operations of Expidoc.com and the transfer of ownership of bravorealty.com, and the overall decrease in cost of mortgage related revenue of approximately \$1.6 million due to a decrease in commissions paid.

Consolidated gross profit increased by \$1,964,234 for the six months ended October 31, 2005 compared to the six months ended October 31, 2004. The increase in the gross profit compared to last year was attributable to the decrease in commissions paid and more of the income residuals were transferred to branch accounts.

### General and Administrative Expenses

General and administrative expenses decreased by \$549,437 for the six months ended October 31, 2005 compared to the six months ended October 31, 2004. This decrease compared to last year can be directly attributed to decrease in branch personnel expenses and branch management expenses and reduction of corporate staff.

### Selling and Marketing Expense

Selling and marketing expense relates primarily to costs incurred for prospecting activities to obtain new clients (borrowers). These costs include acquiring "leads" which translate into funded loans. Selling and marketing expenses for the six months ended October 31, 2005 increased by \$1,321,853 compared to the six months ended October 31, 2004. We may see increased spending in this area in future periods as the marketplace for qualified borrowers becomes more and more competitive.

### Interest Expense

Interest expense increased by \$305,035 for the six months ended October 31, 2005 as compared to the six months ended October 31, 2004. Interest expense is primarily related to interest paid on our warehouse line of credit. The line of credit was not renewed upon maturity on May 31, 2005 due to Anza's inability to meet the errors and omissions maximum deductible guideline of the warehouse line provider. The increase in interest expense for the six months this year was attributed to the amortization of discounts related to Series G Preferred stocks totaling \$281,322.

25

### Income Taxes

Our income taxes have not been material during the periods presented because of utilization of Anza's net operating loss carryforwards for federal income tax reporting purposes. California suspended net operating losses usage for fiscal 2004 and 2005. The Company has no significant current or deferred income tax expense during the periods presented.

### Net Income (Loss)



## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

We realized a net loss of \$1,008,036 for the six months ended October 31, 2005 compared to a net loss of \$1,265,660 for the six months ended October 31, 2004. The decrease compared to last year was due to reduction of costs.

### LIQUIDITY AND CAPITAL RESOURCES

#### Introduction

Our cash position remains strong with over \$1.3 million on hand as of October 31, 2005, compared to \$1.4 million as of July 31, 2005 and \$1.3 million as of April 30, 2005. Our current liabilities exceed our current assets by \$1,946,202. However, if our revenues continue to decline and we are unable to offset the declines by shedding overhead costs, our cash balances will decrease noticeably. In addition, any significant changes to our estimates of exposure from contingent liabilities could have a severe adverse effect on our liquidity and capital resources

#### Cash Flows

Net cash provided by (used in) operating activities was \$5,816,610 for the six months ended October 31, 2005, compared to (\$3,673,219) for the six months ended October 31, 2004. For the six months ended October 31, 2005, we recorded a net loss of (\$1,008,036) compared to a net loss of (\$1,265,660) for the six months ended October 31, 2004. In both periods, the changes in our loans held for sale was the primary contributor to the net cash provided by (used in) operating activities in the amount of \$5,886,950 and (\$4,146,340) as of October 31, 2005 and 2004, respectively. In addition, for the current six months, an increase in accrued liabilities in the amount of \$302,180 and an increase in accounts payable in the amount of \$18,924 were contributors to the cash provided by operating activities.

Net cash (used in) investing activities was (\$1,226) for the six months ended October 31, 2005 compared to cash provided by investing activities of \$1,100 for the six months ended October 31, 2004. For the six months ended October 31, 2005, net cash used in investing activities relates to the acquisition of property and equipment.

Net cash provided by (used in) financing activities was (\$5,817,430) and \$4,007,536 for the six months ended October 31, 2005 and October 31, 2004, respectively. The most significant contributor to the cash used in financing activities during the six months ended October 31, 2005, relates primarily to payments on our warehouse line of credit in the amount of \$(5,778,298). During the six months ended October 31, 2004, the only inclusion in the net cash provided by financing activities was from advances from our warehouse line of credit.

#### Liquidity

Our cash on hand at October 31, 2005 amounted to \$1,314,794 and our working capital shortfall was \$1,946,202. Our current obligations consist primarily of liabilities generated in the ordinary course of business, which included our warehouse line of credit. We have no long-term debt which we need to service in the near term.

#### Interest Rates

We are vulnerable to increases in interest rates. Our business over the past two years has increased due to mortgage refinancings which resulted from declining interest rates. The sub-prime lending market is less vulnerable to

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

increases in interest rates, because interest rates charges to these borrowers is significantly higher and less volatile to changes in interest rates. Significant increases in interest rates could have an adverse impact on our financial condition, results of operations and cash flows.

### Seasonality

We experience slow loan production in the months of January through March because of the low number of applications we receive in December and January relative to the other months during the year. We historically have incurred losses during the months of February and March because of seasonality.

### ITEM 3 Quantitative and Qualitative Disclosures About Market Risk

Interest rate movements significantly impact our volume of closed loans and represent the primary component of market risk to us. In a higher interest rate environment, consumer demand for mortgage loans, particularly refinancing of existing mortgages, declines. Interest rate movements affect the interest income earned on loans held for sale, interest expense on the warehouse lines payable, the value of mortgage loans held for sale and ultimately the gain on sale of mortgage loans.

Our primary financial instruments are cash in banks and money market instruments. We do not believe that these instruments are subject to material potential near-term losses in future earnings from reasonably possible near-term changes in market rates or prices. We do not have derivative financial instruments for speculative or trading purposes. We are not currently exposed to any material currency exchange risk.

### ITEM 4 Controls and Procedures

#### Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of October 31, 2005, to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities Exchange Commission's rules and forms, including to ensure that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of October 31, 2005, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses described below.

27

In light of the material weaknesses described below, we performed additional analysis and other post-closing procedures to ensure our consolidated financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the consolidated financial statements included in this report fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented.

A material weakness is a control deficiency (within the meaning of the

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 2) or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified the following two material weaknesses which have caused management to conclude that, as of October 31, 2005, our disclosure controls and procedures were not effective at the reasonable assurance level:

1. We were unable to meet our requirements to timely file our Form 10-Q for the quarter ended July 31, 2005 or our Form 10-K for the year ended April 30, 2005. Management evaluated the impact of our inability to timely file periodic reports with the Securities and Exchange Commission on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted in the inability to timely make these filings represented a material weakness.

2. We did not maintain a sufficient complement of finance and accounting personnel with adequate depth and skill in the application of generally accepted accounting principles. In addition, we did not maintain a sufficient complement of finance and accounting personnel to handle the matters necessary to timely file our Form 10-Q for the quarter ended July 31, 2005 or our Form 10-K for the year ended April 30, 2005. Management evaluated the impact of our lack of sufficient finance and accounting personnel on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted in our lack of sufficient personnel represented a material weakness.

To address these material weaknesses, management performed additional analyses and other procedures to ensure that the financial statements included herein fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

### Remediation of Material Weaknesses

To remediate the material weaknesses in our disclosure controls and procedures identified above, subsequent to April 30, 2005, in addition to working with our independent auditors, we retained a third-party consultant to advise us regarding our financial reporting process.

### Changes in Internal Control over Financial Reporting

Except as noted above, there were no changes in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

28

## PART II - OTHER INFORMATION

### ITEM 1 Legal Proceedings

There are no changes to our description of the existing matters in our Quarterly Report on Form 10-Q for the quarter ended July 31, 2005.

### ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

There have been no events which are required to be reported under this Item.

### ITEM 3 Defaults Upon Senior Securities

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

There have been no events which are required to be reported under this Item.

### ITEM 4 Submission of Matters to a Vote of Security Holders

There have been no events which are required to be reported under this Item.

### ITEM 5 Other Information

On September 19, 2005, we entered into a Common Stock Purchase Agreement whereby Vince Rinehart, a shareholder and our sole officer and director ("Rinehart") and AMRES Holding, LLC, a Nevada limited liability company under control of Rinehart ("AMRES Holding") will sell a total combined amount of approximately 10,379,731 shares of our common stock and warrants to purchase a total of 3,450,000 shares of our common stock (the "Securities"), to Viking Investments USA, Inc., a Delaware corporation ("Viking"), on or about October 28, 2005, for an aggregate purchase price of \$375,000. Viking does not bear a related-party relationship to Anza or its management. The anticipated closing date has been changed by agreement of the parties to December 30, 2005.

On September 23, 2005, we received a signed Securities Purchase Agreement dated September 16, 2005 from Peter and Irene Gauld (the "Gaulds"), by and between AMRES Holding and the Gaulds, whereby the Gaulds will sell to AMRES Holding, on or about October 28, 2005, warrants to acquire 2,000,000 shares of common stock of Anza in exchange for the total purchase price of \$10,000. The Gaulds do not bear a related-party relationship to Anza or its management. The anticipated closing date has been changed by agreement of the parties to December 30, 2005.

On September 30, 2005, we entered into a Reorganization, Stock and Asset Purchase Agreement by and among Anza and AMRES, on the one hand, and Rinehart and AMRES Holding, on the other hand, whereby we will sell substantially all of our assets to AMRES Holding, on or about November 8, 2005, including but not limited to all of our ownership interest in our subsidiary, AMRES, in exchange for (i) the termination by Rinehart, the managing member of AMRES Holding, of that certain Employment Agreement dated June 1, 2001, by and between Rinehart and the Company, including the waiver of \$500,000 in severance thereunder and (ii) the assumption by AMRES of all obligations under that certain real property lease by and between the Company and Fifth Street Properties-DS, LLC. In conjunction with the abovementioned exchange, the following transactions will occur: (i) the delivery by Rinehart, a shareholder and the sole officer and director of the Company, of his entire ownership interest in the Company, consisting of 988,275 shares of common stock, and 18,800 shares of Series F

29

Convertible Preferred Stock, to Viking; (ii) the delivery by AMRES to Viking of its ownership interest in the Company, consisting of 4,137,500 shares of Company common stock; and (iii) delivery by AMRES Holding of warrants to acquire 250,000 shares of the Company's common stock to Viking. The anticipated closing date has been changed by agreement of the parties to December 30, 2005.

On September 30, 2005, AMRES Holding entered into a Stock Purchase Agreement with Cranshire Capital, L.P. ("Cranshire"), The dotCom Fund, LLC ("dotCom"), and Keyway Investments, Ltd. ("Keyway") (each a "Seller" and collectively the "Sellers"), whereby the Sellers will sell to AMRES Holding, on or about November 8, 2005, an aggregate of 3,043,945 shares of our common stock, 8,201.5 shares of our Series D Preferred stock, and warrants to purchase 750,000 shares of our common stock, in exchange for the total purchase price of

## Edgar Filing: ANZA CAPITAL INC - Form 10-Q

\$125,000. The anticipated closing date has been changed by agreement of the parties to December 30, 2005. The Sellers do not bear a related-party relationship to Anza or its management. These securities will all be sold to Viking pursuant to the terms of Common Stock Purchase Agreement as reported in our Current Report on Form 8-K dated September 23, 2005.

### ITEM 6 Exhibits

#### (a) Exhibits

- 3.1 (1) Restated Articles of Incorporation, as filed with the Nevada Secretary of State on April 14, 2003.
  - 3.2 (1) Second Restated Bylaws of Anza Capital, Inc.
  - 4.1 (1) Certificate of Designation for Series D Convertible Preferred Stock
  - 4.2 (1) Certificate of Designation for Series E Convertible Preferred Stock
  - 4.3 (1) Certificate of Designation for Series F Convertible Preferred Stock
  - 4.4 (2) Certificate of Designation of Series G Convertible Preferred Stock
  - 10.1 (3) Common Stock Purchase Agreement dated September 19, 2005.
  - 10.2 (3) Securities Purchase Agreement dated September 16, 2005.
  - 10.3 (4) Reorganization, Stock and Asset Purchase Agreement dated September 30, 2005.
  - 10.4 (4) Stock Purchase Agreement dated September 30, 2005.
  - 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
  - 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 30
- 32.1 Chief Executive Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 32.2 Chief Financial Officer Certification Pursuant to 18 USC, Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (1) Incorporated by reference to our Current Report on Form 8-K dated April 21, 2003 and filed with the Commission on April 22, 2003.
  - (2) Incorporated by reference to our Current Report on Form 8-K dated and filed with the Commission on September 20, 2004.
  - (3) Incorporated by reference to our Current Report on Form 8-K dated and filed with the Commission on September 23, 2005.

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

(4) Incorporated by reference to our Current Report on Form 8-K dated and filed with the Commission on October 3, 2005.

(b) Reports on Form 8-K

On September 23, 2005, we filed an Item 1.01 Current Report on Form 8-K regarding our entry into an agreement to sell a controlling interest to a third party.

On October 3, 2005, we filed an Item 1.01 Current Report on Form 8-K regarding our entry into an agreement to sell all of our assets and an agreement to purchase all of our securities from a material shareholder, both in connection with our agreement to sell a controlling interest to a third party.

On October 14, 2005, we filed an Item 1.01 Current Report on Form 8-K regarding our entry into an agreement to purchase all of our securities from a third party shareholder in connection with our agreement to sell a controlling interest to a third party.

31

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: December 14, 2005

/s/ Vincent Rinehart

-----  
By: Vincent Rinehart  
Its: President, Chairman, Chief  
Executive Officer, Chief  
Financial Officer, Chief  
Accounting Officer, and  
Director

32