

LGA Holdings, INC
Form 10QSB
February 15, 2007

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended: **December 31, 2006**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

For the transition period from _____ to _____

LGA HOLDINGS, INC.

(Exact Name of Small Business Issuer as Specified in its Charter)

Utah
(State or other jurisdiction
of incorporation or
organization)

0-18113
(Commission
File No.)

87-0405405
I.R.S. Employer
Identification Number

3380 North El Paso Street, Suite G, Colorado Springs, Colorado 80907
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number including area code: **(719) 630-3800**

NO CHANGE

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **8,377,960 shares** of common stock outstanding as of **February 15, 2007**

Transitional Small Business Disclosure Format: Yes [] No []

LGA HOLDINGS, INC.
Index to Financial Statements
(Unaudited)

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LGA HOLDINGS, INC.
Condensed Balance Sheet
December 31, 2006
(Unaudited)

Assets

Current assets:

| | | |
|--|----|---------|
| Cash | \$ | 100,327 |
| Account and notes receivable | | 4,369 |
| Inventory, at lower of cost or market (Note 4) | | 104,170 |
| Prepaid expenses | | 1,914 |

| | | |
|----------------------|--|---------|
| Total current assets | | 210,780 |
|----------------------|--|---------|

| | | |
|--------------------------|--|-----------|
| Property and equipment | | 255,186 |
| Accumulated depreciation | | (125,460) |
| Intangible Assets | | 97,535 |
| Accumulated amortization | | (20,501) |
| Other assets | | 2,604 |

| | | |
|--------------|----|---------|
| Total assets | \$ | 420,144 |
|--------------|----|---------|

Liabilities and Shareholders' Equity

Current liabilities:

| | | |
|---------------------------------------|----|---------|
| Accounts payable | \$ | 81,392 |
| Unearned revenue | | 27,088 |
| Accrued payroll and other liabilities | | 132,167 |

| | | |
|---------------------------|--|---------|
| Total current liabilities | | 240,647 |
|---------------------------|--|---------|

Long-term liabilities:

| | | |
|---------------------------------------|--|---------|
| Notes payable, related party (Note 2) | | 60,000 |
| Total liabilities | | 300,647 |

Shareholders' equity:

| | | |
|--------------------------------|--|-------------|
| Common stock | | 8,808 |
| Additional paid-in capital ... | | 1,307,181 |
| Accumulated deficit | | (1,196,492) |

| | | |
|----------------------------|--|---------|
| Total shareholders' equity | | 119,497 |
|----------------------------|--|---------|

| | | |
|--|----|---------|
| Total liabilities and shareholders' equity | \$ | 420,144 |
|--|----|---------|

See accompanying notes to condensed financial statements

LGA HOLDINGS, INC.
Condensed Statements of Operations
(Unaudited)

| | Six months ended December 31, | | Three months ended December 31, | |
|--|----------------------------------|-------------|------------------------------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| Sales and revenue | \$ 167,428 | \$ 168,085 | \$ 50,413 | \$ 45,048 |
| Costs of revenue | 85,993 | 85,666 | 31,326 | 31,936 |
| Research and development | 70,314 | 3,743 | 59,370 | 120 |
| Selling, general and administrative | 258,025 | 141,730 | 140,011 | 61,251 |
| Total operating expenses | 414,332 | 231,139 | 230,707 | 93,307 |
| Operating loss | (246,904) | (63,054) | (180,294) | (48,259) |
| Other income (expense): | | | | |
| Other income | 193 | 1,289 | 78 | 528 |
| Interest expense | (2,466) | (6,183) | (1,762) | (3,763) |
| Embezzlement expense, net of recoveries | (44,764) | — | (30,279) | — |
| Loss before income taxes | (293,941) | (67,948) | (212,257) | (51,494) |
| Income tax provision | — | — | — | — |
| Net loss | \$ (293,941) | \$ (67,948) | \$ (212,257) | \$ (51,494) |
| Basic and diluted loss per share | \$ (0.03) | \$ (0.01) | \$ (0.02) | \$ (0.01) |
| Number of weighted average common shares outstanding | 8,603,198 | 8,144,963 | 8,628,793 | 8,162,222 |

See accompanying notes to condensed financial statements

LGA HOLDINGS, INC.
Condensed Statement of Changes in Shareholders' Equity
(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional paid-in capital | Accumulated deficit | Total |
|---|------------------------|------------------------|----------------------------------|------------------------|-----------|
| Balance at July 1, 2006 | 8,592,960 | \$ 8,593 | \$ 1,150,918 | \$ (914,613) | 244,898 |
| Adjustment for uncorrected immaterial financial statement differences (Note 2) | — | — | — | 12,062 | 12,062 |
| Contributed interest (Note 2) | — | — | 6,478 | — | 6,478 |
| Sale of stock for cash (Note 2) | 215,000 | 215 | 149,785 | — | 150,000 |
| Net loss | — | — | — | (293,941) | (293,941) |
| Balance at December 31, 2006 | 8,807,960 | \$ 8,808 | \$ 1,307,181 | \$ (1,196,492) | 119,497 |

See accompanying notes to condensed financial statements

LGA HOLDINGS, INC.
Condensed Statements of Cash Flows
(Unaudited)

| | Six months ended | |
|---|-------------------------|-------------|
| | December 31, | |
| | 2006 | 2005 |
| Net cash used in operating activities | \$ (73,848) | \$ (55,870) |
| Cash flows from investing activities: | | |
| Purchase of equipment and other assets | (35,825) | — |
| Net cash used in investing activities | (35,825) | — |
| Cash flows from financing activities: | | |
| Proceeds from notes payable, related party | 60,000 | |
| Proceeds from sale of common stock | 150,000 | 29,988 |
| Net cash provided by financing activities | 210,000 | 29,988 |
| Net change in cash | 100,327 | (25,882) |
| Cash, beginning of period | — | 25,882 |
| Cash, end of period | \$ 100,327 | \$ — |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Income taxes | \$ — | \$ — |
| Interest | \$ — | \$ — |

See accompanying notes to condensed financial statements

LGA HOLDINGS, INC.
Notes to Condensed Financial Statements
(Unaudited)

Note 1: Basis of presentation

The condensed financial statements presented herein have been prepared by our Company in accordance with the accounting policies in its Form 10-KSB with financial statements dated June 30, 2006, and should be read in conjunction with the notes thereto.

In our opinion, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of operating results for the interim period presented have been made. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the year.

Interim financial data presented herein are unaudited.

The accompanying statements of operations and cash flows reflect the six-month and three-month period ended December 31, 2006. The comparative figures for the six-month and three-month period ended December 31, 2005 have been included in the accompanying statements of operations and cash flows for comparison on an unaudited basis.

Recent Accounting Pronouncements

In July 2006, the FASB finalized and issued Interpretation No. 48 ("FIN 48"), entitled "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109," which defines the threshold for recognizing the benefits of tax return positions as well as guidance regarding the measurement of the resulting tax benefits. FIN 48 requires a company to recognize for financial statement purposes the impact of a tax position if that position is "more likely than not" to prevail (defined as a likelihood of more than fifty percent of being sustained upon audit, based on the technical merits of the tax position). FIN 48 will be effective as of the beginning of the Company's fiscal year ending December 31, 2008, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

In September 2006, the SEC Staff issued Staff Accounting Bulletin No. 108 ("SAB 108") to require registrants to quantify financial statement misstatements that have been accumulating in their financial statements for years and to correct them, if material, without restating. Under the provisions of SAB 108, financial statement misstatements are to be quantified and evaluated for materiality using both balance sheet and income statement approaches. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company has evaluated the impact of adopting SAB 108 on its financial statements as discussed in Note 2.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157") entitled "Fair Value Measurements", to define fair value, establish a framework for measuring fair value and expand disclosures about fair value measurements. This statement provides guidance related to the definition of fair value, the methods used to measure fair value and disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the impact of adopting SFAS 157 on its financial statements.

Note 2: Related Party

Notes Payable, related party

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During the three months ended 31 December 2006, the Company borrowed a total of \$60,000 from Marty and Sara Williams, both of whom are company officers, directors, and shareholders. The loan was made in the form of an unsecured promissory note maturing on June 30, 2010, bearing 8% annual interest. All accrued interest and principal will be paid at maturity. The note carries no penalty for early extinguishment. No commissions were paid in connection with this transaction.

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LGA HOLDINGS, INC.
Notes to Condensed Financial Statements
(Unaudited)

Stock sold for cash

During the three months ended 31 December 2006, the Company raised \$150,000 in a private placement equity offering. The buyer was Third Century II, an investment partnership controlled by Eric Nickerson. Mr. Nickerson is an officer, director, and shareholder of the Company. Third Century II received 215,000 shares of common stock, plus a warrant to purchase up to 215,000 shares of the Company's common stock from the Company at a price of \$1.00 per share. The option expires on January 31, 2012. No commissions were paid in connection with this transaction.

Reclassification of Notes Payable

As of September 30, 2006, our Board of Directors approved the reclassification of \$87,867 from notes payable to officers to accrued payroll. Accrued interest related to the notes payable in the amount of \$6,478 as of June 30, 2006 was forgiven by the officers and recorded as contributed capital and is shown in the accompanying condensed financial statements.

Note 3: Income taxes

We record income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". We have incurred net operating losses during all periods presented resulting in a deferred tax asset, which was fully allowed for; therefore, the net benefit and expense resulted in \$-0- income taxes.

Note 4: Inventory

Inventory consists of raw materials and finished inventory, which have been accounted for at lower of cost or market.

[Missing Graphic Reference]

At December 31, 2006, the Company reduced the carrying value of inventory by approximately \$58,000 to a lower-of-cost-or-market basis for inventory items that management considered excessive, obsolete or slow-moving.

Note 5: Embezzlement

During the three months ended December 31, 2006, a credit card company reversed a \$30,559 insurance settlement that it had credited to the Company's account in the previous quarter. As a result, the Company recognized a \$30,559 embezzlement loss in the current quarter.

Note 6: Subsequent Event

In January 2007, a former employee of the Company exercised stock options to acquire 100,000 newly issued common shares at a price of \$.70 per share. Proceeds were \$70,000.

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

Certain statements made herein are forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and estimates; actual results may differ materially due to certain risks and uncertainties. For example, the ability of LGA to achieve expected results may be affected by external factors such as competitive price pressures, conditions in the economy and industry growth, and internal factors, such as future financing of the acquired operations and the ability to control expenses.

Results of Operations

| | Six Months Ended December 31, | |
|-----------------------|----------------------------------|----------|
| | 2006 | 2005 |
| Revenue | 167,428 | 168,085 |
| Cost of Revenue | 85,993 | 85,666 |
| SGA | 258,025 | 141,730 |
| R & D | 70,314 | 3,743 |
| Other Income(expense) | 193 | 1,289 |
| Interest Expense | (2,466) | (6,183) |
| Net Loss | (293,941) | (67,948) |

Six Months Ended December 31, 2006, Compared with Six Months Ended December 31, 2005

During the first six months of Fiscal 2007, the Company's revenue was steady at \$167,428, compared to \$168,085 in revenue for the similar period of Fiscal 2006. During the current period the Company's sales resulted primarily from inquiries generated by our web site and customer referrals.

Cost of revenue for the six months ended December 31, 2006, was \$85,993 compared to \$85,666 for the 2005 period.

Gross margin on product sales of 49% for the current period remained unchanged as compared to the prior year's gross margin results.

SG&A expenses increased to \$258,025 for the six months ended December 31, 2006, compared to \$141,730 for the comparable period of 2005. The increase in SG&A expenses for the current six-month period is primarily attributable to the one-time costs associated with a former bookkeeper's embezzlement of Company resources. These expenses include the financial impact of the financial crimes themselves, investigation, remediation and ongoing efforts toward corporate recovery. The Company expects a decrease in SGA expenses associated with the embezzlement during the second half of fiscal 2007.

Research and Development expense for the six months ended December 31, 2006 was \$70,314 compared to \$3,743 for the prior period. The \$66,571 increase in R&D costs during the second half of 2006, is attributable to the one-time expensing of accumulated prototype product not necessarily intended to be resold and the allocation of office and employee overhead used in the creative process.

Net loss for the six months ended December 31, 2006, increased to (\$293,941) or (\$0.03) per share as compared to (\$67,948) or (\$0.01) per share for the six months ending December 31, 2005, primarily due to the reasons discussed above.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position increased from \$-0- at December 31, 2005 to \$100,327 at December 31, 2006. During the first half of fiscal 2007, the Company used \$73,848 of cash to fund its operating activities.

LGA Capital Requirements

During the six months ended December 31, 2006, an affiliated shareholder purchased \$150,000 of the Company's securities at \$0.70 per share. Subsequent to the end of the December, 2006 quarter, an existing LGA shareholder exercised 100,000 options for 100,000 shares of restricted common stock equal to \$70,000 or \$0.70 per share. During the December, 2006 Quarter, the Company issued a \$60,000 promissory note to an affiliated shareholder in exchange for a \$60,000 operating loan.

During the 2006, calendar year the Company successfully retooled two of its marquee GearManagement solutions: GearSpace 34 and GearWagon 125.

The Company has ordered initial production of the LittleGiant Trailer 7 (LGT-7) design from AutoTek Group, New York, an LGA licensee and vendor. The LGT design has generated adequate market interest to begin manufacturing the design in commercial quantities. LGA expects to begin selling LGT's from this production during the Spring of 2007.

The Company's new GearWagon 125 design is expected to be available for sale beginning with April of 2007. The Company is discussing the GearWagon 125 design with several recreational product related entities regarding the potential for branding or co-development efforts.

The Company was recently notified by the U.S. Patent and Trade office that its GullWing and FoldOut claims will issue on February 20, 2007 with the patent number 7,178,857.

The Company is working on several product licensing opportunities, that if completed, have the potential to generate significant growth capital for our business. However, no assurance can be given as to whether these discussions will

result in a completed transaction, nor can the Company give any assurances as to the timing or financial magnitude of these transactions.

The Company is experiencing a growing level of product interest from consumers, dealers and OEM's. It will take time and capital to convert this interest into product sales and/or licensing revenue. Therefore, even though the Company anticipates increasing sales revenue going forward, it is not able to forecast when its sales volume will be sufficient to support the Company's operating expenses.

LGA is pursuing additional growth capital from finance and/or licensing related sources. There can be no assurance given as to whether LGA will be successful at generating the additional growth capital it will need from either of these sources.

While a portion of the current liabilities, approximately \$193,000, is owed to present officers and/or directors, there can be no assurances that these officers/directors will not seek payment in the near term.

Inflation has not had a significant impact on the Company's operations.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

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

None

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

(a) Exhibits

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 18 U.S.C. Section 1350

32.2 Certification of Chief Financial Officer Pursuant to Section 18 U.S.C. Section 1350

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SIGNATURES

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

LGA Holdings, Inc
(Registrant)

Date: February 15, 2007

By: /s/ Marty Williams

Marty Williams
Chief Executive Officer, President

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