

LGA Holdings, INC
Form 10QSB
May 14, 2008

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: March 31, 2008

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	0-18113	87-0405405
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	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

Edgar Filing: LGA Holdings, INC - Form 10QSB

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 9,108,330 shares of common stock outstanding as of March 2008.

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

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

	Page
Condensed Balance Sheet at March 31, 2008 and June 30, 2007	3
Condensed Statements of Operations, for the nine months ended March 31, 2008 and 2007 and for the three months ended March 31, 2008 and 2007	4
Condensed Statement of Changes in Shareholders' Equity for the period from July 1, 2007 through March 31, 2008	8
Condensed Statements of Cash Flows, for the nine months ended March 31, 2008 and 2007	8
Notes to Condensed Financial Statements	7

LGA HOLDINGS, INC.
Condensed Balance Sheets

(Unaudited)

	March 31, 2008	June 30, 2007
Assets		
Current assets:		
Cash	\$ 49,630	\$ —
Account and notes receivable	39,047	9,683
Inventory, at lower of cost or market (Note 3)	375,645	165,851
Prepaid expenses	6,264	20,084
Total current assets	470,586	195,618
Property and equipment	293,398	276,569
Accumulated depreciation	(158,139)	(140,860)
Intangible Assets	120,647	118,278
Accumulated amortization	(23,750)	(20,501)
Other assets	2,605	2,605
Total assets	\$ 705,347	\$ 431,709
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 52,584	\$ 93,199
Unearned revenue	349,030	—
Accrued payroll	27,548	123,399
Accrued other liabilities	124,659	2,804
Total current liabilities	553,821	219,402
Long term note payable, related party (Note 2)	60,000	60,000
Total liabilities	613,821	279,402
Shareholders' equity:		
Common stock	9,151	8,973
Additional paid-in capital	2,388,091	1,754,066
Accumulated deficit	(2,305,716)	(1,610,732)
Total shareholders' equity	91,526	152,307
Total liabilities and shareholders' equity	\$ 705,347	\$ 431,709

See accompanying notes to condensed financial statements

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

	Nine months ended March 31,		Three months ended March 31,	
	2008	2007	2008	2007
Sales and revenue	\$ 420,979	\$ 287,025	\$ 198,886	\$ 119,597
Costs of sales and revenue	273,489	146,660	104,337	60,667
Research and development	30,263	75,499	8,062	5,185
Selling, general and administrative	804,145	645,482	136,902	387,457
Total operating expenses	1,107,897	867,641	249,301	453,309
Operating loss	(686,918)	(580,616)	(50,415)	(333,712)
Other income (expense):				
Other income	—	230	—	37
Interest expense	(7,389)	(4,479)	(553)	(2,013)
Embezzlement expense, net of recoveries	(200)	(44,764)	(200)	—
Loss before income taxes	(694,507)	(629,629)	(51,168)	(335,688)
Income tax provision	—	—	—	—
Net loss	\$ (694,507)	\$ (629,629)	\$ (51,168)	\$ (335,688)
Basic and diluted loss per share	\$ (0.08)	\$ (0.07)	\$ (0.01)	\$ (0.04)
Number of weighted average common shares outstanding	9,109,503	8,654,627	9,108,310	8,912,127

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, 2007	8,972,960	\$ 8,974	\$ 1,754,066	\$ (1,611,209)	\$ 151,831
Sale of common stock at \$1.25 per share	100,000	100	124,900	—	125,000
Common stock options exercised at \$0.70 per share	78,498	77	55,225	—	55,302
Stock options issued (Note 4)	—	—	453,900	—	453,900
Net loss	—	—	—	(694,507)	(694,507)
Balance at March 31, 2008	9,151,458	\$ 9,151	\$ 2,388,091	\$ (2,305,716)	\$ 91,526

See accompanying notes to condensed financial statements

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

	Nine months ended March 31,	
	2008	2007
Net cash used in operating activities	\$ (128,715)	\$ (227,918)
Cash flows from investing activities:		
Purchase of equipment and other assets	(1,880)	(57,145)
Net cash used in investing activities	(1,880)	(57,145)
Cash flows from financing activities:		
Proceeds from notes payable, related party	124,056	60,000
Repayment of notes payable, related party	(124,056)	—
Proceeds from exercise of stock options	55,225	—
Proceeds from sale of common stock	125,000	251,250
Net cash provided by financing activities	180,225	311,250
Net change in cash	49,630	26,187
Cash, beginning of period	—	—
Cash, end of period	\$ 49,630	\$ 26,187
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	\$ —	\$ —
Interest	\$ —	\$ 2,575

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, 2007, 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 unaudited interim financial information presented herein has been prepared by the Company in accordance with the policies in its audited financial statements for the period ended June 30, 2007 and should be read in conjunction with the notes thereto.

The accompanying statements of operations and cash flows reflect the three-month and nine-month periods ended March 31, 2008. The comparative figures for the three-month and nine-month periods ended March 31, 2007 have been included in the accompanying statements of operations and cash flows for comparison on an unaudited basis.

Recent Accounting Pronouncements

In September 2006, FASB issued Statement 157, Fair Value Measurements (“SFAS 157”). This statement defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles (GAAP). More precisely, this statement sets forth a standard definition of fair value as it applies to assets or liabilities, the principal market (or most advantageous market) for determining fair value (price), the market participants, inputs and the application of the derived fair value to those assets and liabilities. The effective date of this pronouncement is for all full fiscal and interim periods beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its financial statements and related disclosures.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (“SFAS 159”) which permit entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its financial position, cash flows, and results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109, or FIN No. 48. FIN No. 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that we recognize in the financial statements the benefit of a tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition provisions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. Effective January 1, 2007, the Company has adopted FIN No. 48. This interpretation did not have a significant impact on the financial statements due to the Company’s significant net operating loss carryforward.

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

Reclassification

Certain prior period amounts have been reclassified to conform to the current period's presentation. The reclassification did not have an effect on total revenues, total costs and expenses, loss from operations, net loss and net loss per share.

Note 2: Related Party

During September, 2007, an affiliate loaned the Company \$88,056 in the form of an unsecured note carrying 8% annual interest which matured on December 15, 2007. It was agreed that if the note is not paid on the due date, the entire principal and accrued interest shall continue to draw interest at the rate of 8%. In January 2008, the principal and accrued interests were paid in full.

During July, 2007, a director loaned the Company \$36,000 in the form of an unsecured demand note carrying 8% annual interest. In January 2008, the principal and accrued interests were paid in full.

Note 3: Inventory

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

Raw materials	\$ 91,879
Finished goods	283,766
	\$ 375,645

In February, 2008, the Company purchased 60 completed GearWagon 125 Sport Utility Trailers from its manufacturer, Elkhart Sales and Service (ESS) of Elkhart, Indiana. Total cost for this inventory was \$116,140. We financed the purchase with a 6% note payable to ESS under terms calling for monthly payment of accrued interest, and repayment of principal coincident with sales of the trailers. In addition, the Company purchased certain GearWagon 125 raw material inventories from ESS for cash of \$12,885. Simultaneously, the Company took out an operating lease on ESS facilities necessary for storing these and other Company inventories, delivering products to customers, and assembling additional GearWagon 125 trailers as needed.

Note 4: Shareholders' Equity

Stock Options

A summary of changes in the number of stock options outstanding for the nine months ended March 31, 2008 is as follows:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at June 30, 2007.	2,742,595	\$0.79	5.21 years	\$ 333,250

Edgar Filing: LGA Holdings, INC - Form 10QSB

Granted	890,000	\$1.50	5.57 years	
Exercised	(78,498)	\$0.71	N/A	
Cancelled/Expired	(18,585)	\$0.70	N/A	
Outstanding at March 31, 2008	3,535,512	\$0.97	5.44 years	
Exercisable at March 31, 2008	3,535,512	\$0.97	5.44 years	\$ 333,250

- 8 -

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

On November 26, 2007, the Company granted officers and employees options to purchase an aggregate of 730,000 shares of the Company's common stock at an exercise price of \$1.50 per share under the 2005 Equity Incentive Plan. The options vested on the date of grant and expire on November 26, 2012. The quoted market price of the stock was \$0.51 per share on the date of grant. The Company valued the options at \$0.51 per share, or \$372,300, in accordance with SFAS 123(R). Stock-based compensation of \$372,300 was recorded in the accompanying financial statements for the nine months ended March 31, 2007.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	3.23%
Dividend yield	0.00%
Volatility factor	287.00%
Weighted average expected life	5 years

On November 26, 2007, the Company granted an officer and two vendors options to purchase an aggregate of 160,000 shares of the Company's common stock at an exercise price of \$1.50 per share. The options vested on the date of grant and expire on November 26, 2017. The quoted market price of the stock was \$0.51 per share on the date of grant. The Company valued the options at \$0.51 per share, or \$81,600 in accordance with SFAS 123(R). Stock-based compensation of \$81,600 was recorded in the accompanying financial statements for the nine month ended March 31, 2007.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Risk-free interest rate	3.83%
Dividend yield	0.00%
Volatility factor	287.00%
Weighted average expected life	10 years

Capital Stock

During July 2007, two unaffiliated investors purchased a total of 100,000 shares of our common stock in a private placement offering for total cash proceeds of \$125,000 or \$1.25 per share. No commissions were paid in connection with this transaction.

In September 2007, a former employee exercised options to purchase 35,350 shares of our common stock for proceeds of \$25,100 or \$0.70 per share.

In January 2008, an unaffiliated existing investor exercised options at \$.70 to acquire 43,148 common shares of the Company. Cash proceeds to the Company were \$30,204.

Note 5: License Agreement

In January 2008, the Company signed a license agreement with Cequent Towing Products, a division of Trimas Corporation (Cequent). This license gives Cequent exclusive manufacturing and sales rights to the Company's entire line of hitch-mounted cargo carriers, Silent Hitch Pin, and "Pixie" bicycle carrier, for a two-year period. Following the two-year exclusive period, Cequent retains non-exclusive rights for the life of the patents contained in these products. The agreement also contains a right of first refusal for Cequent on any license agreement that the Company may consider with other parties for the Company's GearWagon 125 and Little Giant trailer products. The agreement provides for a \$400,000 upfront fee and continuing royalties paid by Cequent to the Company for the life of the patents. The Company anticipates that these payments will substantially alter the Company's business model going forward throughout calendar 2008 and beyond. The Company's revenue mix will shift proportionally away from direct sales to distributors, dealers, and end users, toward proportionally increasing royalty and fee income into the

- 9 -

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

foreseeable future. The Company plans to recognize revenue from the upfront fee on a straight-line basis over the two year exclusive license period. At 31 March, 2008, accrued royalties resulting from this agreement were immaterial. The company anticipates that such royalties will expand to material amounts in future periods.

Note 6: 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 7: Subsequent Event

In April, 2008, an unaffiliated existing investor exercised options at \$.70 to acquire 30,204 common shares of the Company. Cash proceeds to the Company were \$21,143.

- 10 -

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 financing of acquired assets and the ability to control expenses.

Results of Operations

Results of Operations	Three months ended March 31	
	2008	2007
Revenue	198,886	119,597
Cost of Revenue	104,337	60,667
Gross Margin	94,549	58,930
Research and Development	8,062	5,185
SG&A	136,902	387,457
Operating (Loss)	(50,415)	(333,712)

Third Quarter 2008 Compared with Third Quarter 2007

During the third quarter of Fiscal 2008, the Company had revenues of \$198,886, which represented an increase of \$79,289 or 66% over the comparable quarter's revenue of \$119,597. During the third quarter of Fiscal 2008, the Company had a substantially broader product line compared to 2007's third quarter. In particular, the company's Little Giant trailer, a product not in existence during fiscal 2007, was the company's largest selling product by dollar volume in the most recent quarter. In addition, the 2008 quarter includes \$50,000 of license fee revenue stemming from the event described in Note 5, versus no such revenue in 2007.

Cost of revenue increased \$43,670 or 72% from \$60,667 in 2007 to \$104,337 in 2008. This increase in product costs was primarily due to higher unit sales volumes, increased shipping costs, and to costs associated with mitigation of product quality shortfalls in the company's initial inventory of Little Giant trailers.

Gross margin on product sales (which excludes license fee revenue of \$50,000) decreased in the third quarter of 2008 versus the third quarter of 2007, both absolutely and as a percentage of sales, primarily due to increased shipping costs and to substantial sales out of the initial inventory of the Company's Little Giant trailer in the 2008 third fiscal quarter, versus no such sales in the 2007 third fiscal quarter. This inventory carried added costs, and hence narrower gross margins, to mitigate product quality shortfalls.

SG&A expenses decreased year-to-year, despite increased business activity and employee head count, primarily due to the reduction of share-based compensation to \$-0- in the 2008 quarter, versus \$288,750 in the 2007 quarter.

Operating (loss) for the quarter ended March 31, 2008 was (\$50,415) as compared to (\$333,712) for the Quarter ended March 31, 2007. The substantial decrease in the operating (loss) was due primarily to the \$288,750 decrease in stock-based compensation and the \$50,000 increase in license fee revenue in 2008 versus 2007, offset by narrower gross margins.

Liquidity and Capital Resources

The Company's cash position increased from \$26,187 at March 31, 2007 to \$49,630 at March 31, 2008. Due to the events described in Note 5 to the Financial Statements, cash balance substantially increased in January, 2008. During the current quarter, the bulk of this cash was used to reduce debt and fund operations. During the first nine months of Fiscal 2008, the Company used (\$128,715) of cash to fund its operating activities. Negative operating cash flow was substantially less than the operating loss in the first nine months of fiscal 2008 primarily due to stock-based compensation, a non-cash expense.

LGA Capital Requirements

The Company reported shareholder equity of \$91,526 as of March 31, 2008, as compared with \$173,809 as of March 31, 2007.

The Company does not anticipate any need for additional capital infusions. We anticipate that licensing and product sales revenues will be sufficient to fund all of our operating activities and present growth plans. In the event the Company decides to respond to expanding growth opportunities in the future, additional capital may be required. The Company cannot give any assurance that such additional capital would be available on terms acceptable to shareholders.

The Company is working on several product licensing opportunities that, if completed, have the potential to generate significant revenues beyond those figuring into our current plans. In the event that revenues substantially exceed our operating requirements, consideration would be given to cash dividends, and/or stock repurchases. 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 anticipates improvement in operating margins due to the proportional shift of our revenue mix toward royalties and fees described in Note 5 to the Financial Statements, and a possible reduction in SG&A as we eliminate inventory and manufacturing of products that have been licensed to Cequent. In the event that these anticipations prove mistaken, the Company can provide shareholders with no assurance that any required additional capital will be available on terms acceptable to shareholders.

While a portion of the long term liabilities, approximately \$60,000, is owed to present officers and/or directors, there can be no assurance that these officers/directors will not seek payment in the near term.

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

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.

- 13 -

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 |

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: May 14, 2008

By: /s/ Marty Williams

Marty Williams
Chief Executive Officer, President