

BLUE HOLDINGS, INC.  
Form 10-Q  
November 19, 2008

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

**FORM 10-Q**

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

**For the Quarterly Period Ended: September 30, 2008**

**Commission File Number: 000-33297**

**BLUE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**88-0450923**  
(IRS Employer  
Identification No.)

**4901 Zambrano Street, Commerce, CA 90040**

(Address of principal executive offices)

**(323) 726-0297**

(Registrant's telephone number, including area code)

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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  (Do not check if smaller reporting company) Smaller Reporting Company

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

As of November 18, 2008, 26,232,200 shares of the registrant's common stock were outstanding.

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## PART I

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BLUE HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
Current assets:		
Cash	\$ 44,547	\$ 74,842
Due from factor, net of reserves of \$8,158 and \$173,805, respectively	24,068	94,194
Accounts receivable, net of reserves of \$286,241 and \$1,138,664, respectively:		
- Purchased by factor with recourse	3,065,490	1,668,498
- Others	374,166	548,548
Inventories	4,417,490	9,328,581
Income taxes receivable	1,481,788	1,419,697
Prepaid expenses and other current assets	768,363	1,283,990
Total current assets	10,175,912	14,418,350
Property and equipment, net of accumulated depreciation	558,468	1,771,868
Total assets	\$ 10,734,380	\$ 16,190,218
<b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>		
Current liabilities:		
Bank overdraft	\$ 54,901	\$ 75,764
Accounts payable	3,975,801	2,577,454
Short-term borrowings	12,217,207	12,582,129
Due to related parties	321,282	279,336
Notes payable to majority shareholder	837,670	1,398,842
Current portion of convertible debt	1,020,650	-
Advances under joint venture	500,000	-
Accrued expenses and other current liabilities	526,286	1,620,954
Total current liabilities	19,453,797	18,534,479
Non-current portion of convertible debt	1,020,650	-
Non-current portion of notes payable to majority shareholder	1,124,200	-
Total liabilities	21,598,647	18,534,479
Stockholders' deficiency:		
Preferred stock \$0.001 stated value, 5,000,000 shares authorized, 1,000,000 Series A convertible shares issued with 6% cumulative dividend of the designated purchase price and initial conversion price of \$0.7347	1,000	1,000
Common stock \$0.001 par value, 75,000,000 shares authorized, 26,232,200 shares issued and outstanding	26,232	26,232
Additional paid-in capital	9,617,328	8,059,648
Accumulated deficit	(20,508,827)	(10,431,141)
Total stockholders' deficiency	(10,864,267)	(2,344,261)

Total liabilities and stockholders' deficiency	\$	10,734,380	\$	16,190,218
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**SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

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**BLUE HOLDINGS INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

	Three Months ended September 30,		Nine Months ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 3,550,913	\$ 9,458,399	\$ 16,817,825	\$ 26,300,592
Cost of goods sold	2,029,550	8,511,248	13,604,370	17,092,681
Gross profit	1,521,363	947,151	3,213,455	9,207,911
Selling, distribution & administrative expenses	2,836,337	4,492,960	11,726,490	13,070,619
Loss before other expenses	(1,314,974)	(3,545,809)	(8,513,035)	(3,862,708)
Other expenses (other income):				
- Interest expense	373,714			