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BLUE HOLDINGS, INC.
Form 8-K/A
September 04, 2008

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

FORM 8-K/A
CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report:

(Date of earliest event reported)

JULY 8, 2008

BLUE HOLDINGS, INC.
(Exact name of registrant as specified in charter)

NEVADA
(State or other Jurisdiction of Incorporation or Organization)

000-33297
(Commission File Number)

88-0450923
(IRS Employer Identification No.)

4901 ZAMBRANO STREET COMMERCE, CA 90040
(Address of Principal Executive Offices and zip code)

(323) 726-1913
(Registrant's telephone number, including area code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12(b) under the Exchange Act (17 CFR 240.14a-12(b))
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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This Current Report on Form 8-K/A amends Item 4.02 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 14, 2008 and amended on July 28, 2008 (the "Form 8-K"), regarding non-reliance on the Registrant's previously issued financial statements. The Form 8-K is hereby amended to insert those items as set forth herein.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Information included in this Current Report on Form 8-K may contain statements which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, both as amended. Those statements include statements regarding our intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected in the forward-looking statements. Such risks and uncertainties include, among other things, our ability to face stiff competition, our ability to profitably manage our business, the financial strength of our customers, the continued acceptance of our existing and new products by our existing and new customers, the risks of foreign manufacturing, competitive and economic factors in the textile and apparel markets, the availability of raw materials, the ability to manage growth, weather-related delays, dependence on key personnel, general economic conditions, global manufacturing costs and restrictions, and other risks and uncertainties that may be detailed herein, or from time to time in our other filings made with the Securities and Exchange Commission.

ITEM 4.02 NON-RELIANCE ON PREVIOUSLY ISSUED FINANCIAL STATEMENTS OR A RELATED AUDIT REPORT OR COMPLETED INTERIM REVIEW

On July 8, 2008, the Audit Committee of the Registrant's Board of Directors (the "Audit Committee") determined that the Registrant's audited financial statements for the year ended December 31, 2007, and the unaudited financial statements for the fiscal quarters ended March 31, June 30 and September 30, 2007, need to be restated due to accounting errors in the Registrant's related party accounts and should no longer be relied upon.

From time to time Paul Guez, the Registrant's Chairman of the Board and majority stockholder, and his spouse Elizabeth Guez made advances to the Registrant to support its working capital needs. These advances were non-interest bearing and unsecured, with no formal terms of repayment. On July 1, 2006, the Registrant converted these advances to a line of credit in an agreement with Mr. Guez which allows the Registrant to borrow from him up to a maximum of \$3,000,000 at an interest rate of 6% per annum (the "Revolving Line"). The Registrant may repay the advances in full or in part at any time until the Revolving Line expires and repayment is required on December 31, 2008. In early May 2008, Mr. Guez informed the Registrant of claims for sums he believed were due and owing to him pursuant to advances made to and payments made on behalf of the Registrant during fiscal 2007 that were separate from the Revolving Line.

In light of this dispute on May 19, 2008, the Audit Committee determined that the Registrant's audited financial statements for the year ended

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December 31, 2007, and the unaudited financial statements for certain of the fiscal quarters therein, may need to be restated due to potential accounting errors in the Registrant's related party accounts. The Audit Committee commenced a review of these potential errors and instructed management to review the Registrant's books and records to obtain a summary of transactions recorded and amounts owed per such records. These investigations revealed accounting errors in the Registrant's related party accounts pertaining to royalties in the amount of \$82,138 and payables in the amount of approximately \$1,831,297 that were initially recognized and subsequently written off in error, and rental expense in the amount of \$96,000 that was not recorded.

The Registrant has agreed to a settlement proposal with Mr. Guez pursuant to which the Registrant will rescind the conversion on March 5, 2008 of \$1,400,000 of indebtedness under the Revolving Line into 1,750,000 shares of the Registrant's common stock, Mr. Guez will forgive \$700,000 of indebtedness under the Revolving Line, the Registrant will issue an 8% Senior Secured Convertible Note with a 30-month term and a per share conversion price of \$0.40 to Mr. Guez in the principal amount of approximately \$1,618,093 in settlement of all amounts owed to Mr. Guez and his affiliates as of December 31, 2007, the Registrant will issue a Warrant to Mr. Guez to purchase 1,415,832 shares of the Registrant's common stock at a per share exercise price of \$0.40 and a term of 5 years, and the Registrant and Mr. Guez will mutually release each other from existing claims. The Registrant and Mr. Guez have not entered into definitive documentation regarding the settlement arrangement and intend to do so in the immediate future.

The Registrant anticipates that the restatement of the Registrant's financial statements to reflect the past amounts owed to Mr. Guez will result in an additional charge of \$2,009,435 to the Registrant's statement of profits and loss and its stockholders' equity.

The Registrant's management has also reviewed the Registrant's deferred tax asset and as a result, in accordance with SFAS 109, "Accounting for Income Taxes," has informed the Audit Committee that a valuation allowance must be established against the Registrant's remaining unreserved deferred tax asset.

The Registrant's Chief Financial Officer has discussed with the Registrant's registered independent public accounting firm the matters disclosed in this report. The registrant expects to file the restated financial statements through the EDGAR system no later than September 30, 2008.

SIGNATURES

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

BLUE HOLDINGS, INC.

Date: September 4, 2008

By: /S/ ERIC HOHL

Eric Hohl
Chief Financial Officer

