

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

ANZA CAPITAL INC
Form 10-Q
March 22, 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 JANUARY 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
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 of common stock, as of the latest practicable date. As of March 21, 2005, there were 9,496,346 shares of common stock issued and 5,496,346 shares of common stock outstanding.

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

1

ANZA CAPITAL, INC.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION.....

ITEM 1 Financial Statements.....

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operation.....

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

ITEM 4 Controls and Procedures.....

PART II - OTHER INFORMATION.....

ITEM 1 Legal Proceedings.....

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

ITEM 3 Defaults Upon Senior Securities.....

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

ITEM 5 Other Information.....

ITEM 6 Exhibits.....

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 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

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

3

ANZA CAPITAL, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	January 31, 2005 (Unaudited)	April 30,
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,244,834	\$ 2,204,5
Commissions receivable	607,046	2,028,2
Loans held for sale, net	2,294,700	3,650,9
Marketable securities	1,190,000	
Prepays and other current assets	38,374	19,8
Total current assets	\$ 6,374,954	\$ 7,903,5
Property and equipment, net	189,356	244,1
Other assets	78,046	121,7
Total assets	\$ 6,642,356	\$ 8,269,4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes Payable	\$ 259,900	\$
Accounts payable	205,037	215,1
Commissions payable	1,970,453	2,919,2
Unsecured bank line of credit	75,000	
Warehouse line of credit	2,252,982	3,606,8
Accrued liabilities	503,610	980,4
Dividends Payable	108,887	
Other current liabilities	531,025	74,5
Total liabilities	\$ 5,906,894	\$ 7,796,2
Minority interest in consolidated subsidiary	\$ 298,230	
COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
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	1,040,222	1,040,2
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	313,490	313,4
Class G convertible preferred stock, \$0.001 par value; liquidation value of \$5.00 per share; 750,000 shares authorized, 500,000 shares issued and outstanding	1,000,000	
Common stock, \$0.001 par value; 100,000,000 shares authorized; 4,869,096 shares issued and outstanding as of January 31, 2005 and April 30, 2004	4,870	4,8
Additional paid in capital	14,289,292	13,650,2
Accumulated deficit	(16,210,642)	(14,535,6
Total stockholders' equity	\$ 437,232	\$ 473,1

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Total liabilities and stockholders' equity \$ 6,642,356 \$ 8,269,4

See accompanying notes

4

ANZA CAPITAL, INC.
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(UNAUDITED)

	Three Months Ended		Nine Mon
	January 31, 2005	January 31, 2004	January 31, 2005
Revenues:			
Broker commissions	\$ 11,002,585	\$ 12,431,253	\$ 36,344,559
Sale of Loans, Net	(113,980)	97,897	166,107
Notary and other	186,531	171,194	593,198
	11,075,136	12,700,344	37,103,864
Cost of revenues:			
Broker commissions	7,389,173	8,094,274	24,957,215
Notary and other	152,302	136,499	525,904
	7,541,475	8,230,773	25,483,119
Gross profit	3,533,661	4,469,571	11,620,745
Operating expenses:			
General and administrative	2,384,927	2,203,282	7,309,749
Salaries and wages	1,357,670	2,525,064	4,889,945
Selling and marketing	242,343	91,448	1,143,559
Management fees (interco)	--	--	--
Impairment of Goodwill	--	195,247	--
Provision for litigation losses	(91,480)	--	(91,480)
	3,893,460	5,015,041	13,251,773
Operating income (loss)	(359,799)	(545,470)	(1,631,028)
Interest expense	(121,990)	(37,004)	(236,923)
Interest income	42,080	61,556	162,582
Other Income	5,053	--	5,053
Discount on Notes Payable	(7,768)	--	(7,768)
Minority Interest on Income(Loss)	58,205	--	58,205
Net income (loss)	\$ (384,219)	\$ (520,918)	\$ (1,649,879)
Earnings (loss) per common share:			
Weighted average number of	4,869,896	4,829,960	4,869,896

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

common shares				
Net income (loss) per common share	\$	(0.08)	\$	(0.11)
				\$ (0.34)

See accompanying notes

5

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

	Nine Months Ended January 31, 2005 -----	Nine Months Ended January 31, 2004 -----
Cash flows from operating activities:		
Net income (loss)	\$ (1,649,879)	\$ (1,649,879)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	53,696	
Consulting expense	900,000	
Non-cash BCF and interest charges	30,938	
Gunn Allen warrants consulting	39,427	
Change in minority interest	(58,205)	
Impairment of Goodwill	--	
Changes in operating assets and liabilities:		
Decrease in commissions and accounts receivable	1,421,186	
Decrease in loans held for sale, net	1,356,211	5,000
Decrease in prepaids and other current assets	25,222	
Decrease in accounts payable	(10,115)	
Increase (Decrease) in commissions payable	(948,811)	
Increase (Decrease) in accrued and other liabilities	(101,478)	
	-----	-----
Net cash provided by operating activities	1,058,192	7,000
	-----	-----
Cash flows from investing activities:		
Acquisitions of property and equipment	--	
Net issuance of secured note receivable	--	
Other assets, net	1,100	
	-----	-----
Net cash provided by (used in) investing activities	1,100	
	-----	-----
Cash flows from financing activities:		
Advances (borrowings) from warehouse line of credit, net	(1,353,883)	(5,000)
Repayments on convertible notes payable	(25,000)	
Proceeds from convertible notes payable	125,000	
Issuance of convertible debentures 8%	100,000	

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Issuance of convertible debentures 10%	55,000	
Borrowings from unsecured line of credit	75,000	
Loans Payable	4,900	
Repurchase of Series E Preferred Stock	--	
Dividends on Series E Preferred Stock	--	
	-----	-----
Net cash provided by (used in) financing activities	(1,018,983)	(5,
	-----	-----
Net increase in cash and cash equivalents	40,309	1,
Cash and cash equivalents at beginning of period	2,204,525	2,
	-----	-----
Cash and cash equivalents at end of period	\$ 2,244,834	\$ 3,
	=====	=====
Non-cash investing and financing activities:		
Minority interest in consolidated subsidiary	\$ 356,435	\$
	=====	=====
Conversion of Class C Preferred Stock to common		\$
	=====	=====
Securities exchange agreement	\$ 1,000,000	\$
	=====	=====
Supplemental cash flow information:		
Cash paid for interest	\$ 115,932	\$
	=====	=====

Income taxes were not significant during the periods presented

See accompanying notes

6

NOTES TO INTERIM FINANCIAL STATEMENTS

NOTE 1. UNAUDITED INTERIM FINANCIAL STATEMENTS

The interim financial data as of January 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 January 31, 2005, and the results of their operations and their cash flows for the three and nine months ended January 31, 2005 and 2004. The results of operations are not necessarily indicative of the operations, which may result for the year ending April 30, 2005. Also, in the opinion of management, all disclosures required on Form 10-Q were fully furnished.

ANZA is a holding company with three active subsidiaries. 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

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

30, 2004 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

In connection with the audit of the consolidated financial statements for the year ended April 30, 2004, 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, 2004 and had an accumulated deficit as of April 30, 2004. 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, interest rates have increased during the past 12 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. Management is also hopeful that the AMRES mortgage banking division will expand; however, for the mortgage banking division to continue operating, AMRES needs to comply with its line of credit covenants, which are currently in compliance. If ANZA continues to experience losses, management will require additional working capital through debt or equity sources. At present, although Anza has completed a transaction to improve its net worth, it has no other commitments for long-term financing. 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 nine months ended January 31, 2005 eight investors accounted for eighty percent of the purchase of loans held for sale and accounted for eighty percent of the revenues from mortgage banking and brokering business, and for the nine months ended January 31, 2004, three investors accounted for eighty percent of the purchases of loans held for sale and accounted for eighty percent of the revenues from the mortgage banking and brokering business.

7

NOTE 4. SEGMENT DISCLOSURE

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

Three Months Ended January 31, 2005

Revenues	Operating Income
-----	-----

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

	2005	2004	2005	2004
Loan Brokering - Corporate	11,002	12,431	(306)	15
Mortgage Banking	(114)	98	(45)	(131)
Notary Services	0	78	0	(207)
Real Estate Brokerage	187	93	(3)	(12)
	-----	-----	-----	-----
	11,075	12,700	(354)	(335)
	=====	=====	=====	-----
Corporate			(30)	(186)
			-----	-----
Total			(384)	(521)
			-----	-----

Nine Months Ended January 31, 2005

	Revenues		Operating Income	
	2005	2004	2005	2004
Loan Brokering - Corporate	36,345	46,859	(693)	326
Mortgage Banking	166	209	26	(213)
Notary Services	0	1,223	0	127
Real Estate Brokerage	593	415	(1)	(1)
	-----	-----	-----	-----
	37,104	48,706	(668)	239
	=====	=====	=====	=====
Corporate			(981)	(614)
			-----	-----
Total			(1,649)	(375)
			-----	-----

NOTE 5. IMPACT OF RECENTLY ISSUED ACCOUNTING STATEMENTS

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123R"). SFAS 123R requires companies to expense the value of employee stock options and similar awards. SFAS 123R is effective for interim and annual financial statements beginning after June 15, 2005 and will apply to all outstanding and unvested share-based payments at the time of adoption. The Company is currently evaluating the impact SFAS 123R will have on its consolidated financial statements and will adopt such standard as required.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment to Opinion No. 29, "Accounting for Nonmonetary Transactions". SFAS No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

International Accounting Standards Board. The amendment to Opinion No. 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 No. 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 No. 153 to have a material impact, if any, on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions". The FASB issued this statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2, "Accounting for Real Estate Time-Sharing Transactions". SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS No. 66, "Accounting for Sales of Real Estate", for real estate time-sharing transactions. SFAS No. 152 amends Statement No. 66 to reference the guidance provided in SOP 04-2. SFAS No. 152 also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects", to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS No. 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. Management does not expect adoption of SFAS No. 152 to have a material impact, if any, on the Company's financial position or results of operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs". SFAS No. 151 amends the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) under the guidance in ARB No. 43, Chapter 4, "Inventory Pricing". Paragraph 5 of ARB No. 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not expect adoption of SFAS No. 151 to have a material impact, if any, on the Company's financial position or results of operations.

9

NOTE 6. LOANS HELD FOR SALE

Loans held for sale consist of conventional uninsured mortgages originated by the Company, with various interest rates. Details of the loans are as follows:

January 31, 2005

April 30,

(Unaudited)

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Loans Range	Number of Loans	Total Loan Amount	Average Interest Rate	Number of Loans	Tota Am
-----	-----	-----	-----	-----	-----
\$20,000 to \$100,000	2	131,000	9.23%	14	72
\$100,001 to \$200,000	6	855,657	5.74%	2	31
\$200,001 to \$300,000	1	205,538	6.50%	4	1,12
\$300,001 to \$400,000	1	322,605	1.00%	1	36
Over \$400,000	1	779,900	1.00%	1	1,15
	-----	-----		-----	-----
	11	\$2,294,700		22	\$3,68
Deferred Fees, net of cost					
		(24,300)			(2
		-----			-----
		\$2,270,400			\$3,65
		=====			=====

NOTE 7. 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 January 31, 2005, the Company had \$75,000 outstanding related to this line of credit.

NOTE 8. WAREHOUSE LINE OF CREDIT

The Company maintains a \$10,000,000 warehouse line of credit which expires on May 31, 2005. The agreement is personally guaranteed by ANZA's chief executive officer. The credit agreement calls for various ratios and net worth requirements, minimum utilization requirements, and limits the warehouse period to 45 days for any specific loan. The interest rate is adjustable, based upon a published prime rate, plus an additional 1% to 3% and is payable 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 is collateralized by the Company's loans held for sale. As of January 31, 2005, the Company is in compliance with all of the loan covenants related to the warehouse line of credit.

10

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	January 31, 2005 (unaudited)	April 30, 2004
Accrued salary and benefits	\$313,693	\$161,610
Accrued loss contingencies	169,383	633,500
Accrued professional fees	--	61,558
Accrued other liabilities	2,271	108,887
Accrued interest	18,263	14,910

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

	-----	-----
	503,610	980,465
Accrued dividends	108,887	

	\$612,497	\$980,465
	=====	=====

During the quarter ended January 31, 2005, the Chief Executive Officer elected to defer a portion of his salary. As of January 31, 2005, the total amount deferred was \$69,000. This amount is reflected as accrued salary and benefits on the consolidated financial statements.

NOTE 10. EARNINGS (LOSS) PER COMMON SHARE

ANZA presents basic earnings per share (EPS) and diluted EPS on the face of all statements 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, the Series F Convertible Preferred Stock and the Series G Convertible Preferred Stock were not included in the computations of loss per share for the period ended January 31, 2005 since their effects are anti-dilutive.

NOTE 11. 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; however, our subsidiaries issued shares as discussed in Note 12 Stock Registration of Subsidiary.

NOTE 12. STOCK REGISTRATION OF SUBSIDIARY

On October 18, 2004, the Company's subsidiary, American Residential Funding, Inc. ("AMRES") filed Form D with the Securities and Exchange Commission for a listing on the Pink Sheets. In connection with the filing, the Company issued 15,000,000 shares of common stock to consultants as advisors to facilitate the transaction and concurrently sold 3,000,000 shares at \$0.01 per share (representing a total of 17.5% of AMRES's common shares outstanding). In December 2004, the shares began trading at \$0.05 per share. Therefore, the Company has valued the shares issued to the consultants and the concurrent nominal investments at \$0.05 per share, resulting in expense of approximately \$900,000.

Additionally, the Company initially recorded the pro-rata share of AMRES' equity owned by the minority interest of \$356,435 as minority interest in consolidated subsidiary. Based on the company's pro rata allocation of AMRES net loss for the quarter, the company recorded an adjustment to minority interest in the amount of \$58,204.

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

As of January 31, 2005, the subsidiary is authorized to issue 50,000,000 shares of preferred stock, of which 500,000 shares of Series A Convertible Preferred Stock are outstanding and held by the Company, and 1,000,000 shares of Series B Convertible Preferred Stock are outstanding and held by the Company. As a result of the conversion provisions of the Series B Convertible Preferred Stock, the Company has a minimum of 80% of the votes on all issues submitted to the subsidiary shareholders, and can acquire upon conversion shares of common stock representing a minimum of 80% of the outstanding common stock.

NOTE 13. SECURITIES EXCHANGE AGREEMENT

On September 17, 2004, the Company entered into a Securities Exchange Agreement (the "Agreement") and Escrow Agreement with an unrelated party (the "Party"). Under the terms of the Agreement, the Company exchanged 500,000 shares of its newly created Series G Convertible Preferred Stock (the "Series G") and warrants to purchase 2,000,000 shares of the Company's common stock for 1,000,000 shares of common stock of Cash Technologies, Inc. ("TQ Shares"), a publicly traded company.

The initial value of the TQ Shares was approximately \$1,320,000 at the inception of the Agreement. The Company is required to make certain adjustments as follows to the value of the TQ Shares:

Within 10 business days of the end of each calendar quarter, beginning with the quarter ended December 31, 2004 (each, a "Supplemental TQ Share Valuation Date"), the escrow agent will update the value of the TQ Shares held in escrow by multiplying the average closing price for the 30 days before the end of the applicable quarters times the number of TQ Shares then held in escrow, and then adding the value of any cash or other assets (valued in the same manner as the TQ Shares, or otherwise at their fair market value) then held in escrow (the "Supplemental TQ Shares Value").

If the Supplemental TQ Shares Value exceeds \$1,000,000, then either (i) upon the receipt of a written request from the Party, that number of TQ Shares may be released from escrow to the Party so that the Supplemental TQ Share Value is approximately \$1,000,000, or (ii) upon the mutual consent of the Company and the Party, the Company will issue additional shares of the Series G equal to the then-Supplemental TQ Share Value. In the event that any of the TQ Shares have been previously released from escrow, and the Supplemental TQ Share Value is subsequently less than \$1,000,000, upon the receipt of a written request from the Company, the Party will re-deposit that number of TQ Shares (up to the original 1,000,000 TQ Shares), or cash or other assets acceptable to the Company, with the escrow agent so that the Supplemental TQ Share Value is approximately \$1,000,000.

If the Supplemental TQ Share Value is less than \$1,000,000, and all of the TQ Shares are already held in escrow, then upon the receipt of a written request from the Company, that number of the Series G will be released from escrow to the Company so that the original issue price of the Series G then held in escrow will be approximately equal to the Supplemental TQ Share Value. If, on a subsequent Supplemental TQ Share Valuation Date, the Supplemental TQ Share Value exceeds \$1,000,000, then the Company will have the choice of re-depositing any withdrawn Series G to bring the Supplemental TQ Share Value back to \$1,000,000, or adjusting the number of TQ Shares as set forth above.

The Company has recorded the fair market value of the TQ Shares as available-for-sale securities in the accompanying balance sheet, with

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

fluctuations in the value being recorded as a current liability in the accompanying financial statements. As of January 31, 2005, the fair market value of the TQ shares is approximately \$1,190,000. This is offset by a corresponding liability of \$190,000 reflected in other current liabilities on the accompanying financial statements.

Additionally, the Agreement has certain rescission rights as follows:

Upon the receipt of notice by the Party of any claim or demand, not currently known to them, that is reasonably likely to have an effect on the warehouse line of credit, the TQ Shares, and/or the Series G then held in escrow, or if the Company fails to make a dividend payment on the Series G within 10 days of its due date, or if there is a change in control of the Company, then the Party may rescind the Agreement. Upon rescission of this Agreement, the escrow agent will return any TQ Shares (or other assets) held in escrow to the Party, and any Series G held in escrow to the Company.

The Company may rescind this Agreement at any time after the date which is 6 months after the Closing Date (the "Exclusion Period") by providing 30 days advance written notice to the Party (the "Anza Termination Notice Period"). However, if the Company rescinds the Agreement during the 30-day period immediately following the Exclusion Period, the Company is limited to rescinding the transaction only with respect to one-half of the then-outstanding Series G. The Exclusion Period and the Anza Termination Notice Period is waived for the Company if the Party exercises a conversion of the Series G. After the expiration of the Anza Termination Notice Period (if applicable), the escrow agent will return any TQ Shares held in escrow to the Party, and any Series G held in escrow to the Company.

The Agreement calls for the various parties to deposit their consideration with an escrow agent, until such a time as either (i) all of the Series G are converted into shares of the Company's common stock, or (ii) the escrow is terminated in accordance with the Agreement, as noted above. In either case, the warrants are transferred to the Party within two days from depositing in the escrow.

The Series G, par value \$0.001 per share, with original issue price of \$2.00 per share, have non-cumulative dividends at 12% per annum, payable when declared. The Series G are immediately convertible into shares of the Company's common stock, subject to certain adjustments, at a price equal to the lesser of \$0.08 per share or 80% of the 30-day average closing bid price for the 30 trading days prior to the date the Company receives a conversion notice. All outstanding shares of the Series G are automatically converted into the Company's common stock on September 17, 2009, 5 years after the original issue date.

The warrants to purchase up to 2,000,000 shares of the Company's common stock have an exercise price of \$0.10 per share and expire in 5 years. In relation to this transaction, a beneficial conversion feature charge of \$225,821 was assessed for the issuance of the Series G, and a warrant valuation was assessed at \$96,716. The pro-rata charges applicable to the quarter ended January 31, 2005 were \$17,550 related to the beneficial conversion feature and \$7,538 related to amortization of the warrants.

On October 30, 2004, the Escrow Agreement was amended such that upon termination of the Securities Purchase Agreement, the TQ Shares will be released to the Company and the Series G will be released to the Party.

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Consulting Agreement and Warrant Agreements

The Company previously entered into an Advisory Agreement with a consultant dated November 25, 2003 and executed an Addendum to that agreement dated September 3, 2004. On September 15, 2004, the Company issued to the consultant warrants to acquire a total of 250,000 shares of common stock at \$0.25 per share and 200,000 shares of common stock at \$0.10 shares. Both warrants are exercisable for five years. In connection herewith, the company recognized \$39,427 in consulting expense which is reflected in general and administrative expenses on the accompanying financial statements.

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 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 liability under the indemnification agreement is approximately \$200,000.

To date, the company received demands for payments in the approximate amount of \$197,000 and has paid all of the outstanding balance except for \$60,000 for which the company is requesting a credit for from HUD. The \$60,000 represents a surplus that HUD received on the sale of two of the indemnified properties.

StateAudits

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.

The only pending audit at the time of the Company's last quarterly update was by the State of Georgia which led to no material findings against the Company.

14

At the present time, the Company is not aware of any pending actions by any state licensing agency.

Settlements

Oaktree Litigation

In March 2003, the Company was served with a lawsuit brought by Oaktree Funding Corporation ("Oaktree") against nineteen defendants, including the Company, the

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

appraiser, escrow company, notary public, and borrowers involved in six (6) different loan transactions brokered by the Company and funded by Oaktree. The Complaint alleged, among other things, that the defendants committed fraud, breach of contract, negligent misrepresentation, RICO violations, and unfair business practices. The Complaint requested damages in excess of \$1,500,000 plus attorneys' fees, interest, penalties, and punitive damages.

As of April 30, 2003, the Company recorded a provision of \$140,000 related to the belief of the Company and of legal counsel that this was the maximum exposure attributable to this lawsuit.

On June 14, 2004, the matter settled in mediation for a total potential exposure to the Company of \$46,500. Of this amount, the Company agreed to pay \$31,500 up front and indemnify Oaktree for up to an additional \$15,000 on three additional properties.

To date, no claims have been made on the three additional properties.

In November 2003, a former employee filed a lawsuit against the Company, Anza Capital, its Chief Executive Officer and American Residential Funding, a wholly-owned subsidiary of the Company. 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 attorneys' fees, interest, penalties, and punitive damages. The trial date had been continued until December 6, 2004, but the matter was settled at mediation, which took place on November 24, 2004. By the terms of the settlement agreement, the amount of the settlement is confidential but the terms were 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. The Company executed a settlement agreement for a total amount of \$120,000, with an initial payment of \$60,000 and subsequent monthly payments of \$10,000 for six months. The \$120,000 is accrued in the financial statements as of April 30, 2004. During the quarter the Company paid the \$60,000 and began making the monthly payments. As of the date of this disclosure, the Company has paid this obligation in full.

A lender requested that the Company reimburse them for two loans in which went into default and were subsequently sold for a \$150,000 loss. The loans were brokered by branch of the Company. On July 19, 2004, the Company settled with the lender agreeing to make monthly payments on the amount of \$10,000 starting August 1, 2004 until a total of \$138,000 is paid. The Company accrued the \$138,000 and is included in the financials as of January 31, 2005

In October 2003, a former employee filed a lawsuit against the Company, Anza Capital, its Chief Executive Officer and American Residential Funding, a wholly-owned subsidiary of the Company. 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 attorneys' fees, interest, penalties, and punitive damages. The trial date was continued until March 2005. The Company believed the case lacked merit and defended vigorously, however, the matter was settled at mediation, which took place on February 17, 2005. By the terms of the settlement agreement, the amount of the settlement 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

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

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. Recently, 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, approximately \$250,000. The Company vigorously defended the cross-complaint and believed the cross-complaint lacked merit, however, 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.

Active Litigation

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 Company vehemently denies any wrongdoing and is vigorously defending these claims. The trial date has been continued until August 8, 2005

On January 23, 2004, a former employee filed claim against the Company in the Superior Court of California, for the County of Orange. The Complaint alleged breach of oral contract and complaint for damages arising out of the plaintiff's employment with the Company, and requested damages in excess of \$50,000 plus attorney's fees, interest, penalties and punitive damages. The Company believes this case lacks merit and is defending vigorously. The Court recently granted the Company's Motion for Summary Judgment except for one cause of action. Plaintiff is 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. The defendants alleged in the complaint are Dae Won & Associates, Inc., Dae W. Yoon, the Company, and Kathy Pan a loan officer of the Company. Our San Francisco Branch Office employs Ms. Pan. The complaint alleges fraudulent inducement of contract, rescission, conversion and negligence. This claim is for a total amount of \$121,000. Ms. Pan vehemently denies any liability and/or responsibility to the plaintiff and has hired an attorney to respond to the complaint on her behalf. The Company is defending the matter vigorously, as the Company believes that this case lacks merit.

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 an individual named Paul Robertson deceived the borrowers who were seeking a construction loan to build a house on a vacant lot. The 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.

On or about May 18, 2004, a former assistant in one of the Company's branches filed a complaint. The Complaint alleges violations of Labor Code sections 202 and 203, claiming that plaintiff is owed back commissions. The company believes

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

that the claim lacks merit and is vigorously defending the matter.

In June 2004 a lawsuit was filed against the Company's wholly-owned subsidiary American Residential Funding, Inc. ("AMRES") by the Orange County, California landlord. The suit alleges that AMRES breached a building lease and claims damages for the entire term of the lease through August 2007 of \$886,332. AMRES recently 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 to hold the proper parties accountable for any damages that are due the plaintiff. Recently the Company obtained information and believes that the office leases, which are the subject of this litigation have been re-leased to new tenants. Thus, the overall exposure, in terms of the plaintiff's damages, should be substantially reduced.

On or about July 30, 2004 a complaint was filed by a borrower of the Company. The Complaint alleges the Violation of Michigan Consumer Protection Act, Breach of Contract; 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 September 7, 2004 a complaint was filed against the company and its CEO, alleging fraud, negligent misrepresentation and a promise made without intent to perform. The amount of damages claimed is approximately \$250,000. Defendants believe that the matter lacks merit. On Friday, March 11, 2005, the Court sustained (without leave to amend) Defendants' Demurrer to plaintiff's amended complaint. Plaintiff is considering an appeal; however, defendants are making a motion to the Court to recover all of its attorneys' fees and costs for having to defend this frivolous action.

On or about September 20, 2004, a Class Action complaint was filed, alleging unsolicited advertisements to fax machines in violation of TCPA 47USC section 227. Damages not disclosed. The company has tendered the matter to People's Home Loans for indemnification, as they were responsible for the actions that are subject to the Complaint. Furthermore, the Company believes that the matter lacks merit and is defending vigorously.

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 still investigating the merits of the case and attempting to determine the potential liability and 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 the 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.

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

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

that the matter lacks merit and is defending vigorously.

The Company is subject to a limited number of claims and actions, which arise in the ordinary course of business. The litigation process is inherently uncertain, and it is possible that the resolution of the Company's existing and future litigation may adversely affect the Company's financial position, results of operations and cash flows.

NOTE 15. ISSUANCE OF CONVERTIBLE NOTE AND WARRANT AGREEMENT BY SUBSIDIARY

On January 7, 2005 and again on January 18, 2005, the company issued convertible notes to private investors totaling \$155,000. The company received proceeds, net of all costs and fees, in the amount of \$133,980. The January 7, 2005 note, with face amount of \$100,000 has a maturity date of June 15, 2005 and has an 8% interest rate, while the January 18, 2005 note has a maturity date of June 15, 2005 at a 10% interest rate. Both notes are convertible into shares of the company's subsidiary, AMRES. Both notes have a beneficial conversion feature which is being amortized over the life of the note and is reflected as interest expense. The interest expense associated with the beneficial conversion feature was not considered material for the period ended January 31, 2005.

On January 11, 2004, American Residential Funding, Inc. borrowed \$125,000 from AMRES Holding, LLC, a related party partially owned and controlled by our Chief Executive Officer. American Residential Funding, Inc. issued a secured convertible note which accrues interest at 12% per annum and is convertible into the Company's common stock at 75% of the average closing bid price for the five days before conversion. Interest payments are due quarterly beginning on January 1, 2005. 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.

During the quarter, the company repaid \$25,000 of the original \$125,000 borrowed. As of January 31, 2005, \$100,000 remains outstanding.

NOTE 16. SUBSEQUENT EVENTS

Partial Conversion of Convertible Note

On February 15, 2005, the holder of the January 7, 2005 convertible note elected to convert \$25,000 of the note balance into 1,000,000 shares of the company's subsidiary's stock (ARFG.PK). The balance remaining on the convertible note after conversion is \$75,000.

Issuance of Convertible Notes

On February 28, 2005, the company issued two convertible notes for face amount of \$28,000, with a maturity of February 10, 2006 at an 8% interest rate. These notes are convertible into shares of the company's subsidiary AMRES (ARFG.PK) and contain a beneficial conversion feature. On March 1, 2005, the holders of these notes exercised their conversion option to effectuate a partial conversion in the amount of \$2,500 into 250,000 shares of the company's subsidiary AMRES (ARFG.PK)

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q report may contain forward-looking statements which involve risks

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

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, 2004 and this report. The Company expressly disclaims any obligations or undertakings 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 that currently operates primarily through three (3) active subsidiaries.

- o AMERICAN RESIDENTIAL FUNDING, INC., a Nevada Corporation (AMRES) provides home financing through loan brokerage and banking.
- o BRAVO REALTY.COM, a Nevada Corporation (BRAVO), is a real estate sales company focused solely in California. Bravo has had limited operations over the last two years.
- o AMRES DIRECT, INC., formerly Red Carpet Holdings, Inc., was recently activated to focus on direct-to-consumer marketing. The Company has not generated revenue and has incurred minimal expenses.

Inactive Subsidiaries

- o EXPIDOC.COM, a California Corporation (EXPIDOC) arranges 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. This event may have a significant impact on our profitability in future periods as Expidoc contributed in-excess of \$301,558 net profit during the first three fiscal quarters of the prior year. We are still assessing our options to proceed with Expidoc, however, we determined that the remaining goodwill related to our acquisition of Expidoc was impaired, and thus recorded an impairment charge in the amount of \$175,247 during January of 2004. If we are unable to operate Expidoc in future periods at similar revenue levels, we will become even more dependant on AMRES to generate revenue and profits.

- o TITUS REAL ESTATE LLC, a California limited liability company (TITUS REAL ESTATE) and BRAVO REAL ESTATE SERVICES, INC. (BRAVO REAL ESTATE NETWORK) are currently non-operational.

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	% YTD Revenue
January 31, 2005	January 31, 2004

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

	-----	-----
Loan Brokering	99.35%	97.88%
Mortgage Banking	(1.03)%	.77%
Notary Services	0.0%	.61%
Real Estate Brokerage	1.68%	.73%
Total	100%	100%

The Mortgage Banking Association expects a decline in refinancing to \$434 billion in 2004 versus \$2.19 trillion in 2003. Brokerage activities are greatly influenced by changes in interest rates and comprise substantially all of the revenues of AMRES. As rates appear to have bottomed in late June 2003, AMRES has seen a significant drop in loan applications for refinancing compared to prior periods. Refinancing currently accounts for about 40% of our total loan production. This, coupled with seasonal declines, is the primary reason for our revenue declines in recent quarters compared to prior periods.

Traditionally, we have experienced increases in our business during the spring and summer when home sales are at their highest levels. Loan production in our highest month of July 2003 totaled 1,394 loans. Loan production has dropped to an average of 600 loans per month as of January 31, 2005.

If we are unable to generate additional sources of revenue, our quarterly results will continue to fluctuate and it may be difficult for us to sustain profitable operations. AMRES is establishing various business initiatives to reduce its reliance on the refinancing market. These initiatives include:

- o Expanding its mortgage banking operations, with emphasis on sub-prime lending, as there is a higher level of profitability delivered from banking these loans compared to brokering these loans. This initiative includes establishing a wholesale operation, which would allow AMRES to fund loans brokered by other companies.
- o Building strategic alliances with other business models such as loan lead generators, builders, realtors and trade associations.
- o Promoting more direct-to-consumer lending, through marketing, with products that are less sensitive to fluctuations in interest rates, such as home equity loans, construction loans and sub-prime loans. Areas we will explore for expansion include Loancomp.com, Loan.com, maxrelo.com, builder business, Lending Tree and joint ventures with other sources of loans such as debt counselors, realtor associations and affinity groups.
- o Continuing to solicit new branches to join our network, especially those branch operations that are "purchase-home sensitive."
- o Reducing operating costs through efficiencies generated by new software and operating systems.

We have experienced a slow-down in business during the last quarter, and had to reduce staff and have cut avoidable costs significantly. As we continue to experience a significant slow down in the refinance business, and if we are unsuccessful in the business initiatives described above to expand our sources of revenue, we are prepared to take immediate actions to reduce our cost structure. If our total loan volume continues to decline, we will need fewer

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

personnel to carry out the functions needed to support the loan process. Specifically, we would further reduce headcount in such areas as compliance, accounting and marketing. We are prepared to reduce our operating expenses by as much as 25%, if conditions warrant.

In addition, we will continually monitor our branch performance, closing under-producing branches to help control our expenses. If implemented, these measures should offset any potential decline in revenues from loans brokered. However, should we experience significant and rapid declines in loan volume; it is unlikely that our cost containment measures will be able to completely offset the impact of the potential lost revenue.

The AMRES mortgage banking platform, which will allow the transformation from predominately a mortgage broker to a banker, is currently closing approximately \$7,000,000 loans monthly, versus over \$170,000,000 in brokered loans monthly for AMRES as a whole. This increase in banking, if managed properly, could allow profitable operations at lower levels of volume. AMRES mortgage banking currently has a staff of 6, and is expanding as quickly as loan volume permits, and as quality control and additional experienced employees allow. It is anticipated that monthly loan production could increase to \$30,000,000 in four to six months, when seasonal revenues are higher. AMRES mortgage banking has established relationships with several investors to purchase our funded loans, including IndyMac Bank, Countrywide Funding, and others. AMRES has purchased software (DataTrac) to manage the mortgage banking process, as well as software to provide our branches with automated underwriting (LoanScore).

We have slowed down the number of new branch additions due to an increase in quality standards, minimum volume requirements, and State preferences. Our branch count is currently approximately 110, down from approximately 200 at January 31, 2004. We continue to monitor all of our branches for "probation" and possible termination to continually ensure that we are focusing our resources on the most productive branches. AMRES has been fortunate to lure loan production officers from our competitors. As the mortgage industry contracts, AMRES will attempt to attract additional branches, production and staff from other firms in the industry. While our net worth does not allow any major acquisition efforts, we have made various contacts in our industry soliciting referrals of new business.

AMRES recently established a corporate managed "direct to consumer" loan production division (AMRES DIRECT). The corporate loan officers and processors are purchasing internet leads from proven providers such as Lending Tree.com. This division will attempt to generate loans directly from consumers through various marketing initiatives and association with strategic affinity groups, such as financial planners. This division is still in the early stages of its development and it is too early to predict our likelihood of success in increasing our loan production through this division.

We expect we may incur additional expenses from State compliance audits, loans brokered with recourse back to AMRES, and unpaid branch liabilities. While we believe we have set aside adequate reserves for these issues, there are no guarantees, due to the very high volume of past loans.

CRITICAL ACCOUNTING POLICIES

Anza's consolidated financial statements and related public financial information are based on the application of accounting principles generally

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

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 accounts receivable allowances, and 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. These significant estimates also include our evaluation of impairments of intangible assets (see further discussion below). 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 close. Loan origination fees and other fees are deferred net of costs upon the sale of loans to third parties without recourse, and whereby ANZA has no continuing involvement.

Loans Held for Sale

Mortgage 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 hold them for investment. AMRES sells loans to institutional loan buyers under an existing contract. AMRES sells the servicing rights to its loans at the time it sells those loans. At the time a loan is sold, AMRES has no continuing interest since servicing rights are transferred at the time of sale in accordance with paragraph 5 of SFAS 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". Recourse provisions generally relate to first payment defaults, or breach of representations and warranties, or fraud, with respect to the loans sold. The recourse provision, because of its very brief term (30 days), is not practical to value in accordance with paragraph 6 of SFAS 140, since the value is minimal. In the event AMRES management becomes aware of a default, the financial asset and liability are reinstated and an assessment of the impact of losses is made.

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 year 2004 and 2003, we estimated the allowance on net deferred tax assets to be one hundred percent (100%) of the net deferred tax assets.

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JANUARY 31, 2005 COMPARED TO
THE THREE MONTHS ENDED JANUARY 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 January 31, 2005 -----	Quarter Ended January 31, 2004 -----	Dollar Change -----	%
Revenues	\$ 11,075,136	\$ 12,700,344	\$ (1,625,208)	(12.8)
Gross Profit %	31.9%	35.1%	N/A	(3.2)
General and Administrative	2,384,927	2,203,282	181,645	8.3
Salaries and Wages	1,357,670	2,525,064	(1,167,394)	(46.2)
Net Income (Loss)	\$ (384,219)	\$ (520,918)	(136,699)	(26.2)

Revenues

Revenues decreased by \$1,625,208 or 12.8% for the quarter ended January 31, 2005 compared to the quarter ended January 31, 2004. The decrease in revenues is directly related to the decline in the refinance market and the discontinued operations of Expidoc.Com.

Bravorealty.com continues to generate only modest revenue and is operating at near break even. Management continues to evaluate the business model for our real estate services. Without a significant shift in the model and potential additional capital outlay, Bravorealty is not expected to provide significant revenue or profitability in future periods.

Costs of Revenues

Commissions are paid on loans funded. Commissions decreased by \$705,101 or 8.7%, for the quarter ended January 31, 2005, to \$7,389,173 from \$8,094,274 for the quarter ended January 31, 2004. These decreases are directly related to the decrease in revenue between the periods.

Consolidated gross profit decreased by \$935,910, or 20.9% for the quarter ended January 31, 2005 to \$3,533,661 from \$4,469,571 for the quarter ended January 31, 2004. As a percentage of revenue, the gross profit decreased by approximately 3.2%. The decrease in the gross profit as a percentage of revenue is directly related to the reduced fees paid by the branches. The branch fees were reduced to be competitive. Furthermore, the corporate loan officers were paid on a higher percentage, increasing the cost of revenue and reducing gross profit.

General and Administrative Expenses

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

General and administrative expenses totaled \$2,384,927 for the quarter ended January 31, 2005, compared to \$2,203,282 for the quarter ended January 31, 2004. This increase of \$181,645 can be directly attributed to AMRES hiring additional consultants to generate more business and to assist in the stock registration transaction of AMRES. The Company does not expect to incur significant cash or non-cash charges to consultants in future periods.

Salaries and Wages

Salaries and wages totaled \$1,357,670 in quarter ended January 31, 2005, compared to \$2,525,064 for the quarter ended January 31, 2004. The decrease of \$1,167,394 is directly related to the reduction of personnel as one of the cost-cutting measures of AMRES.

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 January 31, 2005 amounted to \$242,343 compared to \$91,448 in the prior period. 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 was \$121,990 as of January 31, 2005, compared to \$37,004 as of January 31, 2004. Interest expense is primarily related to interest paid on our warehouse line of credit and interest on our convertible notes payable. The increase in interest expense is directly related to higher average balances on our warehouse line of credit and to issuance of new convertible notes. As of January 31, 2005, the balance on our warehouse line of credit was \$2,252,982 compared to \$1,901,667 as January 31, 2004.

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 2003 and 2004. In 2003, we deducted losses associated with the LoanNet transactions, as we sold our rights to the shares originally issued for the exchange transaction in February 2000. The loss deduction amounted to approximately \$2.1 million. No deferred tax asset was previously recorded for this loss deduction. The Company has no significant current or deferred income tax expense during the periods presented.

Net Income

ANZA realized a net loss of \$384,219 for the quarter ended January 31, 2005 compared to a net loss of \$520,918 for the quarter ended January 31, 2004. This was due to the significant drop in production attributed to the decline in the refinance market. In prior quarter, impairment of goodwill related to Expidoc accounted for \$195,247 of the loss incurred. There were no such impairments in the current quarter.

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

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.

	Nine Months Ended January 31, 2005 -----	Nine Months Ended January 31, 2004 -----	Dollar Change -----	% C -----
Revenues	\$ 37,103,864	\$ 48,706,120	\$ (11,602,256)	(23.8%)
Gross Profit %	31.3%	31.5%	N/A	
General and Administrative	7,309,749	7,061,770	247,979	
Salaries and Wages	4,889,945	8,168,243	(3,278,298)	
Net Income (Loss)	\$ (1,649,879)	\$ (374,714)	1,275,165	

Revenues

Revenues decreased by \$11,602,256 or 23.8% for the nine months ended January 31, 2005 compared to the nine months ended January 31, 2004. The decrease in revenues is directly related to the decline in the refinance market and the discontinued operations of Expidoc.Com.

Bravorealty.com continues to generate only modest revenue and is operating at near break even. Management continues to evaluate the business model for our real estate services. Without a significant shift in the model and potential additional capital outlay, Bravorealty is not expected to provide significant revenue or profitability in future periods.

Costs of Revenues

Commissions are paid on loans funded. Commissions decreased by \$7,402,291 or 22.9%, for the nine months ended January 31, 2005, to \$24,957,215 from \$32,359,506 for the nine months ended January 31, 2004. Notary and other costs associated with Expidoc.com and Bravorealty.com decreased by \$489,096, or 48.2%. These decreases are directly related to the decrease in revenue between the periods, mainly due to the slow down in the refinance market and the ceasing of operations at Expidoc.

Consolidated gross profit decreased by \$3,710,869, or 24.2% for the nine months ended January 31, 2005 to \$11,620,745 from \$15,331,614 for the nine months ended January 31, 2004. As a percentage of revenue, the gross profit decreased by approximately .2%. The decrease in the gross profit as a percentage of revenue is directly related to the reduced revenue as AMRES pays a reduced commission percentage once certain revenue targets are met. Typically, certain corporate branch loan officers receive a higher percentage of the total revenues until certain targets are met at which time AMRES earns a greater percentage.

General and Administrative Expenses

General and administrative expenses totaled \$7,309,749 for the nine months ended January 31, 2005, compared to \$7,061,770 for the nine months ended January 31, 2004. This increase of \$247,979 or 3.5% can be directly attributed to AMRES

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

hiring additional consultants to generate more business and to assist in the stock registration transaction of AMRES. The stock registration transaction alone generated a non-cash charge of \$900,000 based on the value of AMRES shares issued to consultants. This non cash consulting expenses were somewhat offset by AMRES having fewer branches in the current period incurring rent, office supplies, telephone, utilities and other general and administrative expenses.

Salaries and Wages

Salaries and wages totaled \$4,889,945 in nine months ended January 31, 2005, compared to \$8,168,243 for the nine months ended January 31, 2004. The decrease of \$3,278,298 is directly related to the reduction of personnel as one of the cost-cutting measures of AMRES.

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 nine months ended January 31, 2005 amounted to \$1,143,559 compared to \$304,507 in the prior period. 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 was \$236,923 as of January 31, 2005, compared to \$336,261 as of January 31, 2004. Interest expense is primarily related to interest paid on our warehouse line of credit. The decrease in interest expense is directly related to smaller average balances on the company's warehouse line of credit during the current period compared to prior year.

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 2003 and 2004. In 2003, we deducted losses associated with the LoanNet transactions, as we sold our rights to the shares originally issued for the exchange transaction in February 2000. The loss deduction amounted to approximately \$2.1 million. No deferred tax asset was previously recorded for this loss deduction. The Company has no significant current or deferred income tax expense during the periods presented.

Net Income

ANZA realized a net loss of (\$1,649,879) for the nine months ended January 31, 2005 compared to net loss of \$(374,714) for the nine months ended January 31, 2004. This was due to the significant drop in production attributed to the decline in the refinance market and to significant non-cash charges related to the issuance of stock to consultants as part of the stock registration transaction of AMRES.

LIQUIDITY AND CAPITAL RESOURCES

Introduction

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Our cash position remains strong with over \$2.2 million on hand as of January 31, 2005. Our current assets exceed our current liabilities by \$468,060. 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 operating activities was \$1,058,192 for the nine months ended January 31, 2005, compared to net cash provided by operating activities of \$7,116,441 for the prior period. For the nine months ended January 31, 2005, we recorded a net loss of \$1,649,879 compared to a net loss of \$374,714 for the nine months ended January 31, 2004. In both periods, changes in our loans held for sale was the primary contributor to the net cash provided by operating activities. In the current period we had a decrease in our loans held for sale amounting to \$1,385,775 while the prior period we had a decrease in our loans held for sale in the amount \$5,675,143. In addition, for the current nine months, we recorded a charge in the amount of \$900,000 related to common stock of AMRES issued to consultants.

Net cash provided by investing activities was \$1,100 for the nine months ended January 31, 2005 compared to cash used in investing activities of \$346,831 for the nine months ended January 31, 2004.

Net cash used in financing activities was \$1,018,983 for the nine months ended January 31, 2005, compared to net cash used in financing activities of \$5,695,330 for the nine months ended January 31, 2004. The most significant contributor to the cash used in or provided by financing activities during both periods relates primarily to changes on our warehouse line of credit. Advances from the warehouse line of credit decreased by \$1,353,883 for the current nine month period compared to repayments of \$5,612,542 for nine month the prior period.

Liquidity

Our cash on hand at January 31, 2004 amounted to \$2,244,834 and our working capital was \$468,060. Our current obligations consist primarily of liabilities generated in the ordinary course of business, which includes our warehouse line of credit. We have no long-term debt which we need to service in the near term.

We maintain a warehouse line of credit in the amount of \$10,000,000. Maintaining an adequate warehouse line of credit is critical to our growth plans for our mortgage banking operations. Any significant reduction in the borrowing limits or significant changes in terms could have a negative impact on our ability to expand the mortgage banking operations at the pace and with the degree of profitability we desire. Further, we have traditionally experienced no defaults on loans funded through our mortgage banking operations. As we continue to grow this segment of our business, our default rate on these loans may increase. Any significant change in our default rate would have a negative impact on our consolidated financial condition, results of operations and cash flows.

Interest Rates

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

We are vulnerable to increases in interest rates. Our business has declined in the past nine months due to increasing interest rates. The sub-prime lending market is less vulnerable to 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 the 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

The Company's Chief Executive Officer and Chief Financial Officer (or those persons performing similar functions), after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days of the filing of this Quarterly report (the "Evaluation Date"), have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective to ensure the timely collection, evaluation and disclosure of information relating to the Company that would potentially be subject to disclosure under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder. There were no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the Evaluation Date.

PART II - OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

New Matters

In November 2004, a lawsuit was filed against American Residential Funding, Inc. by First American Title Insurance in the State of Arkansas, County of Saline, case number CV-2004-875-1. The Complaint alleges breach of contract

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

and warranty, breach of fiduciary duty, unjust enrichment, and conspiracy, and requests damages of \$294,700, plus accrued interest. We have not filed our Answer, but intend to vigorously defend the action as we believe it lacks merit.

Former Employees

In October 2003, a lawsuit was filed against the Company, its wholly-owned subsidiary American Residential Funding, and its Chairman and CEO Vince Rinehart by a former employee Leigh Dimarco in the Superior Court of the State of California, County of Orange, case number 03CC12686. The Complaint alleges breach of contract and fraud arising out of the plaintiff's employment with the Company, and requests damages in excess of \$2,000,000, plus attorneys' fees, interest, penalties, and punitive damages. In February 2005, we settled this case matter with Ms. Dimarco for an amount that is required to remain confidential.

Existing Matters

Other than as set forth herein, 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, 2004.

In the ordinary course of business, we are from time to time involved in various pending or threatened legal actions. The litigation process is inherently uncertain and it is possible that the resolution of such matters might have a material adverse effect upon our financial condition and/or results of operations. The aggregate amount of all claims from the various other legal proceedings pending against us is not expected to exceed \$400,000. In the opinion of our management, other than as set forth herein, matters currently pending or threatened against us are not expected to have a material adverse effect on our financial position or results of operations.

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

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

We held our 2004 Annual Meeting of Shareholders on November 8, 2004, in Las Vegas, Nevada. There were individuals representing 4,222,231 votes present at the meeting, either in person or by proxy, which represented over 50% of the 8,278,878 total outstanding votes of the Company, so a quorum was present. At the meeting the shareholders approved the following agenda items as set forth in our Schedule 14C Information Statement on file with the SEC:

29

1. The election of one (1) director, namely Vincent Rinehart, to serve until the next Annual Meeting of Shareholders and thereafter until a successor is elected and qualified. Mr. Rinehart was a director prior to the meeting. The results of the voting were as follows:

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

Director	Votes For	Votes Against	Votes Withheld	Abstentions	Broker Non-Votes
Vincent Rinehart	4,222,231	-0-	-0-	-0-	-0-

2. The ratification of the appointment of Singer Lewak Greenbaum & Goldstein LLP as our independent auditors for the fiscal year ending April 30, 2005. The results of the voting were as follows:

Votes For	Votes Against	Votes Withheld	Abstentions	Broker Non-Votes
4,222,231	-0-	-0-	-0-	-0-

A more detailed description of each agenda item at the 2004 Annual Shareholders Meeting can be found in our Schedule 14C Information Statement dated and filed with the Securities and Exchange Commission on October 8, 2004.

ITEM 5 OTHER INFORMATION

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

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
- 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

Edgar Filing: ANZA CAPITAL INC - Form 10-Q

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.

(b) Reports on Form 8-K

On November 12, 2004, we filed an Item 8.01 Current Report on Form 8-K regarding the results of our annual shareholders meeting held on November 8, 2004.

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: March 21, 2005

/s/ Vincent Rinehart

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

32