

LandBank Group Inc  
Form 10QSB  
May 15, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-QSB**

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

**For the period ended March 31, 2007**

Commission file number: **333-83231**

**LANDBANK GROUP, INC**  
**(Exact Name of Registrant as specified in its charter)**

**Delaware**  
(State of incorporation)

**20-1915083**  
(IRS Employer Identification No.)

**7030 Hayvenhurst Avenue, Van Nuys, CA**  
(Address of principal executive offices)

**91406**  
(Zip Code)

**(818) 464-1614**  
(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 o No **x**

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

State the number of shares outstanding of each of the issuer's classes of common equity: 9,928,664 shares of Common Stock (\$.001 par value) as of May 11, 2007.

Transitional Small Business Disclosure Format (Check one): Yes o No **x**

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**PART I FINANCIAL INFORMATION**

**LANDBANK GROUP, INC. AND SUBSIDIARY**  
**Unaudited Consolidated Financial Statements and Accompanying Notes**  
**For the Three Month Periods Ended March 31, 2007 and 2006**

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**LANDBANK GROUP, INC. AND SUBSIDIARY**

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Table of Contents**ITEM I. FINANCIAL STATEMENTS (UNAUDITED)**

**LandBank Group, Inc. and Subsidiary**  
**Consolidated Balance Sheet**  
**As of March 31, 2007**  
**(Unaudited)**

**ASSETS****Current assets**

Cash & cash equivalents	\$	439,251
Inventory - land parcels		2,956,908
Other receivable		3,807
Prepaid expenses		189,279
<b>Total current assets</b>		<b>3,589,245</b>

Property & equipment, net		17,325
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<b>Total assets</b>	<b>\$</b>	<b>3,606,570</b>
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**LIABILITIES AND SHAREHOLDERS' DEFICIT****Current liabilities**

Accounts payable	\$	94,906
Due to related parties		2,767,987
Accrued expenses		322,721
Loan payable - current portion		43,183
Deferred income		758,511

<b>Total current liabilities</b>		<b>3,987,308</b>
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<b>Loan payable - non-current portion</b>		<b>460,262</b>
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**Shareholders' deficit**

Common stock, 100,000,000 shares authorized; \$0.0001 par value; 9,835,331 issued and outstanding		984
Additional paid in capital		413,461
Accumulated deficit		(1,255,445)

<b>Total shareholders' deficit</b>		<b>(841,000)</b>
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<b>Total liabilities and shareholders' deficit</b>	<b>\$</b>	<b>3,606,570</b>
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**The accompanying notes are an integral part of these consolidated unaudited financial statements**



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**Landbank Group Inc. and Subsidiary**  
**Consolidated Statements of Operations**  
**For The Three Month Periods Ended March 31, 2007 and 2006**  
(Unaudited)

	2007		2006
<b>Revenue, net</b>	\$ 901,707	\$	1,657,341
<b>Cost of revenue</b>			
Direct selling expenses	494,507		939,865
Royalty to related party	142,520		251,117
Total cost of sales	637,027		1,190,982
<b>Gross profit</b>	264,680		466,359
Operating expenses			
Rent, related party	5,556		5,553
Professional fees, related parties	5,383		30,700
Professional fees	28,759		91,310
Legal fees	63,777		71,703
Directors and officers compensation	41,344		-
General & administrative expenses	204,884		90,070
Total operating expenses	349,703		289,336
<b>Income (loss) from operations</b>	(85,023)		177,023
Other expenses			
Merger-related costs	-		(140,000)
Interest expenses - bank	(12,411)		(14,830)
Interest expenses - related parties	(39,714)		(18,549)
Total other expenses	(52,125)		(173,379)
<b>Income (loss) before income taxes</b>	(137,148)		3,644
Provision for income taxes	1,600		-
<b>Net income (loss)</b>	\$ (138,748)	\$	3,644
*Basic and diluted weighted average number of common stock outstanding	9,835,331		9,630,538
<b>Basic and diluted net income (loss) per share</b>	\$ (0.01)	\$	0.00

**The accompanying notes are an integral part of these consolidated unaudited financial statements**

**\*Basic & diluted shares outstanding are considered same due to its anti-dilutive nature.**

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**LandBank Group, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**For the Three Month Periods Ended March 31, 2007 and 2006**  
**(Unaudited)**

	2007	2006
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (138,748)	\$ 3,644
Adjustments to reconcile net income (loss) to net cash		
Provided by (used in) operating activities:		
Depreciation - capital equipment	3,464	-
Options granted to Directors & Officers	13,844	-
Changes in current assets and liabilities:		
(Increase) decrease in current assets		
Inventory - land parcels	280,355	346,740
Other receivable	4,736	-
Prepaid expenses	24,896	196,557
Increase (decrease) in current liabilities		
Accounts payable	(39,297)	43,466
Accrued expenses	(7,726)	2,536
Deferred income	(36,156)	(849,535)
Total adjustments	244,116	(260,236)
<b>Net cash provided by (used in) operating activities</b>	<b>105,368</b>	<b>(256,592)</b>
<b>Cash flows from investing activities</b>		
Equipment purchases	(20,789)	-
<b>Cash flows from financial activities</b>		
Due to related parties	98,138	(177,581)
Repayment of loans	(9,436)	(32,800)
<b>Net cash provided by (used) in financial activities</b>	<b>88,702</b>	<b>(210,381)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>173,281</b>	<b>(466,973)</b>
<b>Cash and cash equivalents - beginning balance</b>	<b>265,970</b>	<b>631,425</b>
<b>Cash and cash equivalents - ending balance</b>	<b>\$ 439,251</b>	<b>\$ 164,452</b>

**Supplemental disclosure of cash flows information:**

Taxes paid	\$	1,600	\$	-
Interest paid	\$	12,411	\$	14,830

**The accompanying notes are an integral part of these consolidated unaudited financial statements**

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**LANDBANK GROUP, INC. AND SUBSIDIARY  
NOTES TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of business and significant accounting policies:**

**Nature of business:**

Landbank Group, Inc., formerly known as iStorage Network, Inc. (“iStorage”), formerly known as Camryn Information Services, Inc, was incorporated under the laws of the State of Delaware on May 13, 1997.

On January 26, 2006, iStorage issued 8,200,000 shares of restricted stock (post-split) in exchange for all of the assets and liabilities of Landbank, LLC, a company organized in the State of California in December 2004, and \$140,000 in cash. iStorage changed its name to Landbank Group, Inc. The former members of Landbank, LLC became approximately 90% owners of the Company.

The exchange of shares with Landbank, LLC was accounted for as a reverse acquisition under the purchase method of accounting since the stockholders of Landbank, LLC obtained control of the consolidated entity (collectively, “the Company”). Accordingly, the merger of the two companies was recorded as a recapitalization of Landbank, LLC, where as Landbank, LLC was treated as the continuing entity. The historical results for the three month periods ended March 31, 2007 and 2006 include Landbank, LLC and Landbank Group, Inc. (from the acquisition date).

The Company makes bulk acquisitions of parcels of land, and resells the land as individual parcels. The Company seeks to acquire a majority of its land “in-bulk” through the real property tax lien foreclosure process, either at local government tax sales, directly from local government entities having acquired property at tax sales, or directly from owners of tax-defaulted parcels prior to tax sale.

The types of real estate acquired and sold by the Company include undeveloped acreage, houses, and lots. These parcels are marketed nationwide. To date, the Company has acquired properties in Arizona, Colorado, Florida, Michigan, New Mexico, Nevada, Oklahoma, New York, Pennsylvania, Texas, and in the State of Chihuahua, Mexico.

The Company resells the land as individual parcels through multiple distribution channels, including Internet sales and leads developed by the Company, its affiliates, or third party vendors. The Company also uses the Internet to market its properties.

The Company shares its office space with its affiliates.

The Company’s principal office is located in Van Nuys, California. The property is leased from a real estate company related to the Company by common ownership under a five-year lease that expires in 2008.

The Company also has a satellite office in American Fork, Utah, a processing and acquisition office in Alameda, California, and a sales office in Phoenix, Arizona. The Company shares office space at all three locations with its affiliates.

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### **Interim Consolidated Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America. However, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted or condensed, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of Landbank management, all adjustments of a normal recurring nature necessary for a fair presentation have been included. The results for periods are not necessarily indicative of results for the entire year. These financial statements and accompanying notes should be read in conjunction with our annual financial statements and the notes thereto for the year ended December 31, 2006, included in our Annual Report on Form 10KSB, filed with the Securities and Exchange Commission.

### **Summary of significant accounting policies**

The following summary of significant accounting policies used in the preparation of these consolidated financial statements is in accordance with generally accepted accounting principles.

### **Principles of Consolidation**

The consolidated financial statements consist of the accounts of Landbank Group, Inc. ("Parent") and its wholly owned subsidiary Landbank, LLC, a California Limited Liability Company (collectively "The Company"). All material inter-company transactions have been eliminated in consolidation.

### **Concentration**

The Company maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts.

### **Inventory**

The Company's inventory consists of land parcels that are purchased for resale purposes, and, except for special circumstances, do not normally remain in inventory for a prolonged period of time. The Company records its inventory at the lower of cost or fair market value at the relevant balance sheet date. The Company reviews its inventory on a quarterly basis in an attempt to (1) identify "problem" properties that may become impaired (difficult or impossible to sell), and (2) identify the financial impact, or impairment, to the recorded cost, or carrying value, of these properties. The Company attempts to measure impairment on an item-by-item basis, but due to practical limitations, the Company also measures impairment for a group of similar/related properties. The Company considers properties to be similar/related if they are from the same subdivision and/or geographic region. For the purpose of this discussion, the term "property" refers to a specific property or a group of similar/related properties.

The Company recognizes inventory impairment at the time it's incurred, which is at the conclusion of the aforementioned quarterly reviews. Impairment charges, or write-downs to the recorded value of a property, occur when the estimated fair market value (FMV) of a property falls below the recorded, or carrying cost, of the associated property. The estimated FMV of a property is based on the conditions that exist at the relevant balance sheet date, with consideration being given to events after the relevant balance sheet date to the extent that they confirm conditions existing at or before the relevant balance sheet date. The Company's quarterly inventory impairment reviews require the exercise of judgment and take into consideration all relevant information available to the Company at the time the review is conducted. This periodic comparison of comparable information determines if the value of our properties has become impaired.



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In attempting to identify impaired properties, the Company begins by analyzing recent trends in selling prices (EBay, Bid4Assets, real estate agent listings, and the Company's sales records) to establish the estimated fair market value (FMV) of a property and then compares the estimated FMV to the recorded value of the property to ensure that the estimated FMV has not fallen below the recorded value. Should it be determined that the estimated FMV is less than the recorded value, the Company records the appropriate impairment charge at that time, as it writes down the value of the property to its estimated FMV, which does not include any profit/markup.

The Company also reviews its properties to identify problems/issues that may reduce a property's value, such as, but not limited to, zoning issues, right of way issues, and failed per tests. Any of these problems, and similar problems not previously mentioned, can have an adverse affect on the estimated FMV of a property and necessitate a write down of the recorded value of said property. Should it be determined that such "problem" properties exist, the Company records the appropriate impairment charge at that time, as it writes down the value of the property to its estimated FMV, which, as previously mentioned, does not include any profit/markup.

The Company's return rates (the number of similar properties sold by the Company that have been returned to the Company by the buyer) are also reviewed in an effort to gauge the favorability, or salability, of its properties. The purpose of this review is to attempt to determine if certain properties (1) are not in favor with our Customer base, (2) are over priced, (3) the particular market for that property is saturated, or (4) are problem properties for some reason unknown to the Company. Should it be determined that certain properties are experiencing abnormally high return rates and may be difficult to sell at an estimated FMV above their recorded cost, the Company will record the appropriate impairment charge at that time, as it writes down the value of the property to its estimated FMV.

The Company's impairment analysis is predicated on establishing an accurate estimate of a property's FMV. This estimate of FMV is based on the analysis of known trends, demands, commitments, events and uncertainties. As previously stated, the Company reviews all relevant information at its disposal at the time its impairment analysis is being performed, and uses that data to assess what impairment charges, if any, have been incurred. However, estimated FMV can be difficult to establish and is contingent on market conditions, such as, but not limited to, supply and demand, local and national economic factors, and interest rates. Any change in these market conditions, and similar conditions not previously mentioned, could have a material impact on estimated FMV, and, therefore, future inventory impairment charges incurred by the Company. Since there is not always a readily available source for land values, the weight of all measures, as described above, are considered by management in its impairment analysis.

## Use of estimates

The process of preparing consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

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**Recognition of revenue and expenses**

The Company follows FASB 66 - Accounting for Sales of Real Estate. Substantially all of the Company's land sales are all-cash transactions. The Company also had a small, insignificant number of financing transactions through March 31, 2007. Because the Company's policy for the all-cash transactions is to allow the buyer 60 days to rescind his real estate purchase, and because the Company does not issue the deed of trust on a financing sale until the note is paid in full, the deposit method of accounting is used. Under the deposit method, revenues and their related expenses, including inventory, are not recognized until the end of the buyer's 60-day rescission period, for the all-cash sales, and at the time the note is paid in full for the financing transaction (also see note 4).

**Issuance of shares for service**

The Company accounts for the issuance of equity instruments to acquire goods and services based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable.

**Recent pronouncements**

In September 2006, FASB issued SFAS 157 'Fair Value Measurements'. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the Board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

In September 2006, FASB issued SFAS 158 'Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)' This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements:

1. A brief description of the provisions of this Statement
2. The date that adoption is required
3. The date the employer plans to adopt the recognition provisions of this Statement, if earlier.





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The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management is currently evaluating the effect of this pronouncement on the consolidated financial statements.

In February 2007, FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. FAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted subject to specific requirements outlined in the new Statement. Therefore, calendar-year companies may be able to adopt FAS 159 for their first quarter 2007 financial statements.

The new Statement allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. FAS 159 also establishes presentation and disclosure requirements designed to draw comparison between entities that elect different measurement attributes for similar assets and liabilities.

**2. Acquisition of LandBank, LLC**

On January 26, 2006, Landbank Group, Inc. acquired all of the membership interests in Landbank, LLC in exchange for the transfer, by certain members of the previous management, of an aggregate of 8,200,000 shares of Landbank Group, Inc.'s stock (post-split), in exchange for which such members of previous management received Landbank Group, Inc.'s former wholly-owned subsidiary, iStorage Networks Group, Inc., and \$140,000 in cash.

**3. Due to/from related parties**

The Company has amounts due to various related parties that are directors and companies related through common ownership. These amounts are unsecured, have no stated rates of interest, and have no maturity dates. Interest expense has been imputed on amounts due to related companies using a per annum rate of eight percent (8%). As of March 31, 2007, the Company had \$2,767,986 due to related parties. Interest expense to related parties for the three month periods ended March 31, 2007 and 2006 was \$39,714 and \$18,549, respectively.

	As of March 31, 2007			As of March 31, 2006		
	Principal	Interest	Total	Principal	Interest	Total
John Beck's Amazing Profits, LLC	\$ 543,773	\$ -	\$ 543,773	\$ (3,222)	\$ (3,849)	\$ (7,071)
Mentoring of America, LLC	54,928	7,523	62,451	41,333	3,201	44,534
HG, Inc.	1,546,679	130,067	1,676,746	467,405	18,672	486,077
HG Marketing, LLC	382,606	75,330	457,936	582,606	36,721	619,327
Family Products, LLC	-	2,393	2,393	-	2,393	2,393
Gaytan, Baumblatt, Leevan	24,688	-	24,688	-	-	-
	\$ 2,552,673	\$ 215,313	\$ 2,767,987	\$ 1,088,122	\$ 57,138	\$ 1,145,260

Gaytan, Baumblatt, & Leevan is an accounting firm owned by Ray Gaytan, a Director of the Company (see note 11).

Table of Contents**4. Deferred revenue under the deposit method**

The Company follows FASB 66 - Accounting for Sales of Real Estate (see note 1), and due to the Company's 60-day refund policy, all sales transactions, and their related direct expenses, are not recognized until after the expiration of the buyer's 60-day rescission period. Therefore, the Company records these direct expenses, which include royalties paid to an affiliate, sales commissions, merchant fees, and processing fees, as prepaid expenses until the 60-day buyer's rescission period has expired. As of March 31, 2007, deferred revenue totaled \$758,511. The following table details deferred revenue and the related direct costs as of March 31, 2007:

Deferred revenue	\$ 758,511
Direct costs:	
Land	380,708
Royalty to affiliated party	65,282
Processing fees	42,950
Merchant fees	18,276
Sales commissions	29,433
Total direct costs	536,649
Gross profit	\$ 221,862
As a % of net revenue	29.2%

Selling expenses include a royalty paid to John Beck's Amazing Profits, LLC ("JBAP")(see note 11) equal to 35% of the gross profit on sales resulting from a lead provided by JBAP, 5% sales commission, credit card merchant fees, trust deed transfer costs of \$50 per transaction, and property assessment fees.

**5. Loans Payable**

In August 2005, the Company purchased certain sections of land in Pershing County, Nevada subject to loans from Western Title Company. Each of the 18 sections of land secures their respective loan. The loans bear interest at 10% per annum and mature September 1, 2015, unless the corresponding real estate is sold sooner, in which case, the loan must be repaid.

During the three month period ended March 31, 2007, the Company made total principal payments of \$9,436 and interest payments of \$12,411. As of this filing, the Company is current on its payment obligations.

The scheduled principal payments on these notes are as follows:

	<b>Years ended March 31,</b>
2008	\$ 40,183
2009	44,391
2010	49,039
2011	54,174

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2012	59,847
Thereafter	255,811
Total	503,445
Current portion	43,183
Long-term portion	\$ 460,262

Table of Contents**6. Prepaid Expenses**

Prepaid expenses totaled \$189,279 as of March 31, 2007 and consisted of rent, insurance, audit fees, travel advances, and direct costs associated with the Company's deferred revenue. The Company follows FASB 66 - Accounting for Sales of Real Estate (see note 1), and due to the Company's 60-day refund policy, all sales transactions, and their related direct expenses, are not recognized until after the expiration of the buyer's 60-day rescission period. Therefore, the Company records these direct expenses, which include royalties paid to an affiliate, sales commissions, merchant fees, and processing fees, as prepaid expenses until the 60-day buyer's rescission period has expired. Prepaid rent represents the last monthly rent payment due on the Company's office in Alameda, California, and prepaid insurance relates to both the Company's general liability and directors & officers insurance policies and are expensed over the one-year term of the policies. The audit fees are in relation to the Company's fiscal year 2006 audit and are being expensed over the twelve month period beginning in January 2007 and ending in December 2007. The following table details prepaid expenses as of March 31, 2007:

	<b>As of 3/31/07</b>
Rent	2,368
Insurance	7,970
Audit fees	22,500
Travel advance	500
Merchant fees	18,276
Sales commissions	29,433
Royalties to an affiliate	65,282
Processing fees	42,950
	<b>189,279</b>

**7. Property & Equipment**

As of March 31, 2007, the Company had net property & equipment totaling \$17,325, which consisted of computers and related computer hardware. These assets were purchased for use in the Company's Alameda office and were put into service in February 2007. These assets were recorded at their cost of \$20,789, which included the purchase price, tax, and freight. The Company is depreciating these assets over a twelve (12) month period beginning February 2007, with the monthly depreciation totaling \$1,732. During the three month period ended March 31, 2007, the Company recorded depreciation expense of \$3,464.

**8. Accounts Payable**

Accounts payable consist of normal expenses incurred during the course of business, and the Company's payables are current with regard to vendor terms. Accounts payable totaled \$94,906 as of March 31, 2007, with three vendors accounting for approximately \$85,800 of the total. Approximately \$64,000 was owed to the Company's outside attorneys, \$15,000 was owed to the Company's independent outside auditors (this balance was paid in full on April 12, 2007), and an additional \$6,800 was due to a consultant retained by the Company to assist in locating properties for the Company to purchase.

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**9. Accrued Expenses**

Accrued expenses totaled \$322,721 as of March 31, 2007 and consisted of \$155,000 owed to Piping Partners Holdings, LLC (see note 13), \$84,000 related to shares to be issued to a consultant (see note 10), \$55,796 in accrued payroll and related expenses, \$7,500 in accrued audit fees, \$20,000 in accrued legal fees, and \$425 in accrued insurance.

**10. Stockholders' Deficit**

**Retro-active recapitalization of shares outstanding**

As stated above in note 2, the Company acquired all of the membership interests of Landbank, LLC on January 26, 2006. As a result, the Company's stockholder equity was retroactively restated to reflect the equivalent number of shares received in the merger, which was 8,200,002 as adjusted for the 1 for 10 reverse stock split on June 30, 2006 (82,000,000 pre-split). Stockholders' equity was \$82,373 as of December 31, 2005.

**Common Stock Issued**

The Company did not issue any shares of its common stock during the three month period ended March 31, 2007. The only equity transaction during the same period in fiscal year 2006 was the above mentioned transfer of shares relating to the acquisition of Landbank, LLC (see note 2).

**Common Stock to be issued**

Pursuant to the terms of its agreement with Aurelius Consulting Group, Inc. (see note 9), the Company is to issue shares worth \$12,000 per month to Aurelius as compensation for services provided. As of March 31, 2007, the Company had accrued \$84,000 as a current liability in relation to shares owed to Aurelius for services provided. The \$84,000 represents the final compensation owed to Aurelius per the terms of the above referenced agreement, and the entire \$84,000 of accrued expense was recorded as of December 31, 2006.

On April 4, 2007, the Company issued 93,333 shares of its common stock as payment in full for the \$84,000 in accrued professional fees. The total number of shares of the Company's common stock issued and outstanding immediately after the issuance of the 93,333 shares was 9,928,664.

**Stock Split**

On March 3, 2006, the Company obtained written consent from stockholders holding a majority of the Company's outstanding shares of voting securities to authorize a reverse split of the Company's outstanding common stock. Pursuant to the terms of the written consent, the Company completed a 1 for 10 reverse split of its common stock, with special treatment for certain Company shareholders to preserve round lot shareholders. The following is a summary illustrating the effect of the reverse stock split:

	<b>Post-Split</b>	<b>Pre-Split</b>
Par Value	\$ 0.0001	\$ 0.00001
Authorized number of shares	100,000,000	1,000,000,000

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Shares issued and outstanding	9,206,597	92,052,000
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All fractional shares are rounded up and the authorized shares were reduced to 100,000,000. The financial statements have been retroactively restated for the effects of the above stock splits

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**11. Related-party transactions**

The Company pays a royalty to related companies equal to 35% of gross profit received by the Company on each all-cash sale generated by leads provided by that related company. Gross profit is defined as land sale revenue reduced by inventory cost, sales commissions, credit card merchant fees, and deed of trust transfer costs. The related companies are indirectly owned and controlled by two of the Company's principal stockholders, who are also officers and directors of the Company. A third director of the Company receives a profit participation of 50% of the royalty payments received by one of the related companies, pursuant to its royalty agreement with the Company, for his services to that related company. During the three month periods ended March 31, 2007 and 2006, the Company recorded royalty expense to related parties of \$142,520 and \$251,117, respectively. The Company had prepaid royalty expense to related parties of \$65,282 as of March 31, 2007 (see note 4).

The Company has an agreement with Investment Capital Researchers, Inc. ("ICR"), a Company owned by a member of the Company's Board of Directors. Pursuant to the agreement, ICR received 200,000 shares (post-split) of the Company's common stock on June 30, 2006 and may receive an additional 200,000 shares of the Company's common stock (post-split) upon the achievement of specified milestones. Under the terms of the agreement, the issued shares can only be sold or transferred over a four-year period at the rate of 100,000 on each anniversary of the closing date of a secondary offering. All shares issued pursuant to this agreement will be restricted securities. The 200,000 shares issued on June 30, 2006 were valued at \$120,000 based on fair value of the shares at the time of issuance. The Company expensed the entire \$120,000 as non-cash consulting fees during the six month period ended June 30, 2006,

The Company shares its principal office in Van Nuys and its offices in both American Fork and Alameda with related parties. The Company does not pay rent for its Van Nuys and American Fork facilities, but, if it were required to pay rent on these facilities, the Company estimates the combined monthly rent value being approximately \$1,200, which the Company deems as not material. The related parties are companies owned and controlled by two of the Company's principal stockholders, who are officers and directors of the Company. The Company's office in Phoenix, Arizona is subleased from a related company owned by two of the Company's directors. Under the terms of the sublease arrangement, the Company pays a pro rata share of the rent paid by the related company, based upon the portion of the space occupied by the Company. During the three month periods ended March 31, 2007 and 2006, the Company recorded related party rent expense totaling \$5,556 and zero, respectively.

On December 22, 2006, the Company entered into a lease for approximately 1,200 square feet of office space in Alameda, California. The lease is for a term of twenty-five (25) months, commencing January 1, 2007. Per the terms of the lease, the first month is rent-free, with a base rent of \$2,295 per month for months two (2) through twelve (12) and \$2,366 per month for months thirteen (13) through twenty-five (25). The Company is also responsible for paying its pro-rated share of certain expenses, such as property taxes. The monthly rent and related expenses for the Alameda office are to be allocated to both the Company and its affiliate, Mentoring of America, LLC ("MAC"), with each company paying 50% of the expenses associated with maintaining this office.

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The following table details the Company's rent expense commitments per the terms of the applicable lease agreements. The Company's lease for its Arizona office expires in January 2008, while the lease for its Alameda office expires in January 2009. These two leases represent the only office leases currently entered into by the Company.

	<b>2007</b>	<b>2008</b>	<b>2009</b>
Arizona Office	\$ 22,224	\$ 1,852	\$ -
Alameda Office	12,623	14,196	1,183
<b>Total</b>	<b>\$ 34,847</b>	<b>\$ 16,048</b>	<b>\$ 1,183</b>

A director of the Company has, through his accounting firm, provided accounting service to the Company. The Company recorded related party accounting expense totaling \$5,383 during the three month period ended March 31, 2007. The Company incurred \$30,700 in related party accounting expense during the same period in fiscal year 2006.

The Company currently pays no salary or other compensation to its Chief Executive Officer or President. The Company's Chief Financial Officer is paid an annual base salary of \$110,000 for 2007.

**12. Concentration of Credit Risk**

The Company maintains certain cash balances with a commercial bank. The Company's cash balance of \$439,251 as of March 31, 2007 was approximately \$339,251 above insured limits.

**13. Commitments****Joint Marketing Agreement with Aurelius Consulting Group, Inc.**

On May 26, 2006, the Company entered into a Joint Marketing Agreement (the "Agreement") with Aurelius Consulting Group, Inc. /Red Chip Companies ("ACG/RC") to assist in marketing the Company to the investment community. ACG/RC, per the terms of the Agreement, will among other public relations and investor relations activities, distribute both a research report and a newsletter to the investment community.

In return for the above mentioned services, the Company was to pay ACG/RC a total of \$150,000 in cash and restricted shares of the Company's common stock. The cash portion totaled \$44,000, with \$20,000 down and \$24,000 in eight monthly installments of \$3,000 each. The remaining \$106,000 was to be paid in stock, with \$10,000 to be paid immediately and the remainder in eight monthly installments of \$12,000 each. As of December 31, 2006, the Company had recorded all of the expenses relating to its agreement with ACG/RC.

As of March 31, 2007, the Company had paid ACG/RC \$41,000 in cash, with the remaining \$3,000 of the cash portion recorded under accounts payable, and had issued 24,445 shares (post-split) of stock valued at \$14,667 based on fair value of the shares at the time of issuance, which was expensed as professional fees during the six month period ended June 30, 2006. As of March 31, 2007, the Company had an \$84,000 accrued liability relating to the shares owed to ACG/RC for services provided. As previously stated, the \$84,000 expense had been recorded as of December 31, 2006.

On April 4, 2007, the Company issued 93,333 shares of its common stock as payment in full for the \$84,000 in accrued professional fees. The total number of shares of the Company's common stock issued and outstanding immediately after the issuance of the 93,333 shares was 9,928,664.





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**Agreement with Piping Partners Holdings, Inc.**

On January 25, 2006, the Company entered into an agreement with Piping Partners Holdings, LLC (“PPH”) to assist the Company in seeking quotation of the Company’s shares on the Over the Counter Bulletin Board (“OTCBB”).

Per terms of this agreement with PPH, the Company agreed to pay PPH a success fee, which includes any and all application and filing fees and expenses, of \$235,000, which is to be paid upon active quotation, with PPH’s assistance, of the Company’s shares on the OTCBB, less any advance amounts, and a \$10,000 advance for legal services engaged by PPH, and approved by the Company, in connecti