

GL ENERGY & EXPLORATION INC
Form 10KSB
August 25, 2006

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **April 30, 2006**

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: **000-31032**

AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.
f/k/a GL Energy & Exploration, Inc.

(Name of small business issuer as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-2190362
(I.R.S. Employer
Identification No.)

8721 Sunset Blvd., Penthouse 7
Hollywood, California 90069

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(310) 659-8770**
Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act: **\$.001 par value common stock**

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 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 No

Check if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for the most recent fiscal year were \$0.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately \$379,078 as of August 8, 2006. Shares of common stock held by each officer and director and by each person or group who owns 10% or more of the outstanding common stock amounting to 27,077,042 shares have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not

necessarily a conclusive determination for other purposes.

As of August 8, 2006, 65,977,042 shares of our common stock were issued and outstanding.

Documents Incorporated by Reference: None.

Transitional Small Business Disclosure Format: No.

PART I

Item 1. Description of Business

Overview

American Southwest Music Distribution, Inc. f/k/a GL Energy & Exploration, Inc. (“we” or the “Company”) was incorporated in the state of Delaware in 1998. Previously, the company engaged in the exploration of mining prospects in the western United States. As of January 1, 2006, we were a “shell” company (as defined in Rule 12b-2 of the Exchange Act).

On March 13, 2006, we entered into an agreement (the “Exchange Agreement”) pursuant to which we acquired all of the equity of American Southwest Music Distribution, Inc., a Texas corporation (“American”). Pursuant to the Exchange Agreement, we issued 22,500,000 shares of our common stock and 23,980 shares of our series A convertible preferred stock to David Michery and Kent Puckett, the sole shareholders of American. On August 18, 2006, we filed a certificate of amendment to our certificate of incorporation with the Delaware secretary of state changing our name to “American Southwest Music Distribution, Inc.”

As a result, our business is the business of American. American’s current business is the production, acquisition, marketing and sale of pre-recorded music. American’s pre-recorded music products will include releases of the new musical performances of recording artists, as well as compilations featuring various artists or repackaged releases of previously recorded music from our master music catalog and derived from licenses of music masters from third-parties. The exchange will be accounted for as a reverse acquisition. The accounting rules for reverse acquisitions require that, beginning with the date of the acquisition (March 13, 2006), our balance sheet include the assets and liabilities of American and our equity accounts be recapitalized to reflect the net equity of American. Accordingly, our historical operating results are now the operating results of American.

Our current executive offices are located at 8721 Sunset Blvd., Penthouse 7, West Hollywood, California 90069. Our telephone number is (310) 659-8770.

Company History

We produce, acquire, market and sell pre-recorded music through our wholly owned subsidiary, American. American was incorporated in the State of Texas in May 2004. In July 2004, American acquired the assets of Celestial Breakaway Records’ and Out of Control Records’ music catalog, which consisted of rights to various master recordings previously released commercially. Pursuant to that acquisition, American procured the exclusive right to commercially market and sell those master recordings worldwide.

On October 13, 2004, American entered into that certain Agreement and Plan of Reorganization with the Company (the “Merger Agreement”), pursuant to which all of American’s outstanding shares were to be converted into shares of the Company’s capital stock, with the Company being the surviving corporation. Although the Merger Agreement was executed, certain closing conditions were never satisfied, including the filing of a certificate of merger with the Delaware Secretary of State and as such the merger was never consummated. The Board of Directors of both American and the Company deemed it in the best interest of their respective companies and shareholders to terminate the Merger Agreement and to enter into the Exchange Agreement.

On March 13, 2006, American, their shareholders and the Company entered into the Exchange Agreement pursuant to which the Company issued an aggregate of 22,500,000 shares of its common stock and 23,980 shares of its series A convertible preferred stock to the American stockholders in exchange of their transfer of American shares to the Company.

American's executive offices are located at 8721 Sunset Blvd., Penthouse 7, West Hollywood, California 90069. American's telephone number is (310) 659-8770.

2

Recent Developments

Our Board of Directors approved an amendment to our certificate of incorporation (the "Charter Amendment") to: (i) change our name to "American Southwest Music Distribution" and (ii) effectuate a reverse stock split of our common stock by changing and reclassifying each seventy four (74) shares of our issued and outstanding common stock, par value \$.001 per share ("Common Stock") into one (1) fully paid and non-assessable share of Common Stock (the "Reverse Split"). A majority of our stockholders approved the Charter Amendment by written consent on July 7, 2006. A notice of shareholder action by written consent was mailed to all stockholders of record as of July 7, 2006 informing them of this action on July 27, 2006. The Charter Amendment was filed with the Delaware Secretary of State on August 17, 2006. Nasdaq effectuated the name change and reverse split on Thursday August 24, 2006. No information in this Annual Report has been adjusted to give effect to the Reverse Split.

Our Business

Our business is the production, acquisition, marketing and sale of pre-recorded music. Our pre-recorded music products will include releases of the new musical performances of recording artists, as well as compilations featuring various artists or repackaged releases of previously recorded music from our master music catalog and derived from licenses of music masters from third-parties.

Our expansion and exploitation of its music catalog is an integral part of its business and growth strategy. American owns a music catalog with 25 album masters, and intends to add to the music catalog through strategic and complementary acquisitions, licensing agreements, and by executing recording agreements with artists, production companies and other record labels with new recordings.

We will enter into rights acquisition, licensing, distribution and recording agreements ("Recording Agreements") with artists, third party record labels and production companies ("Labels") to provide us with master recordings that have not been previously released for sale to consumers ("New Masters"). Through each Recording Agreement, we will acquire the worldwide copyright and exclusive right to distribute and license music products derived from the New Masters that will be recorded and produced by the Labels, during the term of the Recording Agreement or any extension thereof. We will also acquire the exclusive right to record and market all New Masters of the recording artist(s) featured on any and all New Masters recorded by the Labels during the term of the Recording Agreements. We will also have the right to extend the term of the Recording Agreement through the exercise of multiple options pursuant to the terms of the Recording Agreements.

Most of our Recording Agreements will have an initial term and will usually have up separate, consecutive, irrevocable options, to renew the term for additional periods, at our sole discretion. As a condition of the initial term, and prior to exercising each option, we will be required to pay recoupable advances to the Label.

Pursuant each Recording Agreement, each Label will agree to deliver one or more New Masters to us during the term of the Recording Agreement. Each New Master will be required to contain at least twelve (12) newly recorded compositions of the featured recording artist(s), having an aggregate playing time of no less than forty (40) minutes ("Album"), and must be complete and satisfactory to us, in our managements' sole discretion.

If an Album is satisfactory us, we will market and advertise the consumer release of the Album, and after the Label's delivery of an Album to us, we will commercially release the Album in the United States and Canada. Whether or when an Album is commercially released to consumers is within our sole discretion. The actual amount of money spent marketing an Album will be determined by us

Depending upon the initial success of any single, we will advance to the Label the costs to film and produce a music video featuring the single song selected by us. Pursuant to the terms of the Recording Agreement, we have the right to

supervise and approve all elements of the music video. Once an acceptable music video is completed, we will use our efforts and pay third-party promoters to secure airplay of the music video on regional and national music video shows, as part of our marketing of the particular Album.

The marketing expenses we spend on any Album are variable, because the actual amount of expenditures for each Album will depend upon our management's business judgment and discretion, about the commercial success (or lack thereof) of any Album, or the effectiveness of any Album's marketing. At any point, we can elect to continue to or discontinue spending money to market any individual Album. If the Album realizes commercial success in the United States and Canada, the Album will be released in foreign territories.

Depending upon the terms of each Recording Agreement, we will pay each Label royalties from the net profits we actually receive from the sale of music products delivered during the term of the Recording Agreement. According to the terms of each Recording Agreement, we will only be required to pay royalties to a Label after we recoup all advances (we make to or on behalf of the Label) from Label's percentage of net sales of all music products derived from the New Master(s) delivered by the subject Label.

Contracts with Universal

Distribution Agreement

On January 25, 2006, we entered into an Exclusive Manufacturing and Distribution Agreement ("Domestic Distribution Agreement") with Universal Records, a division of UMG Recordings, Inc. ("Universal"). Pursuant to this Agreement, Universal will sell our music products, including compact discs, cassettes, and digital versatile discs (DVD) to consumers mainly through retailers and wholesalers in the United States and Canada. During the term of the Domestic Distribution Agreement, Universal will be our exclusive manufacturer and distributor, through every distribution channel of recorded music in the United States and Canada. Universal will also exclusively handle all of our on-line sales during the term of the Domestic Distribution Agreement.

In exchange for its distribution services, through normal retail channels, Universal is entitled to a distribution fee equal to twenty five percent (25%) of our Net Billings. After the end of the calendar month, where our cumulative Net Billings exceed \$8,000,000, Universal's distribution fee will be twenty two and one half percent (22.5%) of our Net Billings. After the end of the calendar month, in which our cumulative Net Billings exceeds \$15,000,000, Universal's distribution fee will be twenty percent (20%) of our Net Billings. According to the Domestic Distribution Agreement, Net Billings means the cumulative wholesale price for sale of our products, less actual returns and credits to customers for such returns for the applicable accounting period.

In consideration for Universal's services related to sales of our products in the United States and Canada, through channels other than normal retail channels, Universal shall be entitled to a licensing fee equal to fifteen percent (15%) of our Net Licensing Billings. According to the Domestic Distribution Agreement, Net Licensing Billings mean royalties or flat payments received by Universal, on our behalf, attributed to sales, other than sales through normal retail channels.

At the end of the month, immediately following our first commercial release of a product pursuant to the Domestic Distribution Agreement, Universal will compute our Total Net Billings from the sale of American's products, and Universal will compute such Total Net Billings, thereafter, on a calendar monthly basis. Sixty (60) days, after the close of each such monthly period, Universal will send us an accounting statement covering the Total Net Billings and the Net Proceeds payable to us. Along with each accounting statement, Universal will pay us the Net Proceeds realized by sales during the particular accounting period, if any, after deducting any taxes that Universal is required to withhold.

Under the terms of the Domestic Distribution Agreement, Total Net Billings means all Net Billings and Net Licensing Billings that Universal receives from the sale and licensing of our products. Net Proceeds mean Total Net Billings less the following:

- § Universal's applicable distribution fees and license fees;
- § Reserves held, by Universal, against anticipated returns of our products;
- § Universal's charges for manufacturing and handling of our products;
- § All Advances, if any, made by Universal on behalf of us;
- § All applicable taxes imposed on Universal directly related to the manufacture and sale of our products;
- § All co-op advertising costs advanced by Universal on our behalf;

§ Universal's charges for handling returns and refurbishing our products;
§ Credits to Universal's customers for actual returns of our products;
§ Costs of any special program discounts or price reduction programs; and
§ Any other amounts that Universal is entitled to receive.

To secure our payment of any fees, advances or monies that become due and payable to Universal, pursuant to the Domestic Distribution Agreement, we executed a security agreement, granting Universal a first position security interest in the following collateral:

§ All master recordings contained solely on records actually distributed under the Domestic Distribution Agreement, and all contract rights and licenses relating to the master recordings;

§ All sound recordings contained in the all master recordings contained solely on records actually distributed under the Domestic Distribution Agreement, and all copyrights to such sound recordings;

§ Any derivatives or duplicates of all master recordings contained solely on records actually distributed under the Domestic Distribution Agreement;

§ All proceeds derived from all master recordings contained solely on records actually distributed under the Domestic Distribution Agreement;

§ Any and all monies which become payable to us under the Distribution Agreement;

§ All inventory now owned or hereafter acquired by us and all proceeds of the sale or other disposition of the inventory; and

§ Our names and logos used on records, including trademarks.

In addition to our obligations under the security agreement, David Michery, executed an inducement letter wherein he agreed that his active participation in the performance his duties as an employee is a vital part of the Domestic Distribution Agreement. In the event of his death or incapacity or in the event that David Michery ceases to be actively engaged in our management, in a controlling capacity, Universal will have the right to terminate the Domestic Distribution Agreement.

In addition to distributing and selling our products, Universal will supervise and advance the costs of all of American's manufacturing, and will warehouse all of American's inventory. The Domestic Distribution Agreement became effective January 25, 2006 and will continue until January 25, 2008. Universal has the right to extend the term of the Domestic Distribution Agreement for an additional two years, until January 25, 2010.

For each separate title of music products released, our management, along with Universal shall determine the applicable wholesale price per unit.

Under the Distribution Agreement, we are responsible for all recording costs and rights acquisition costs in securing all intellectual property rights and licenses necessary to allow us to sell records. We will be responsible for paying all marketing and promotion costs for each Album title that it releases commercially, and will be responsible to pay artist royalties and royalties related to all licenses related to the exploitation of the Album and its content.

Upstream Agreement

On January 25, 2006, we entered into another agreement with Universal, pursuant to which we granted Universal the right to enter into exclusive recording services contracts with recording artists that have recording contracts with us, and whose performances are featured on Albums, distributed by Universal, on our behalf, that achieve sales in the United States equal to or in excess of 25,000 units (as reported by Soundscan) ("Upstream Agreement").

Under the Upstream Agreement, Universal may exercise its rights to any recording artist, under contract with us, by providing us with written notice, at any time after we deliver an Album featuring the performances of the subject Artist, and ending on the date that Universal releases the Album to retail; or at any time during the period commencing on the date after the Album has been commercially released in the United States and has achieved sales in the United States equal to or in excess of twenty five thousand (25,000) units (as reported by Soundscan), and ending on the date such Album has achieved sales in the United States equal to fifty thousand (50,000) units. If, however, Universal does not exercise its rights under the Upstream Agreement for a particular Artist with sales exceeding 50,000, we have an obligation to provide Universal with written notice that an Artist reached such sales levels, and Universal will have an additional thirty (30) days to exercise its right to the particular recording artist.

If Universal exercises its rights under the Upstream Agreement, we will enter into to a contract to provide the exclusive recording services of the selected Artist to Universal. Pursuant to the recording agreement and the Upstream Agreement, we will grant to Universal a fifty percent (50%) ownership interest in and to all Albums and related materials, relating to the selected artist, that exist prior to Universal's exercise of its rights. Although we will retain an ownership interest in the such Masters, we lose our right to sell, transfer, grant, convey, assign, mortgage, pledge, hypothecate, or otherwise dispose of, or create any liens, encumbrances or security interests on any nature in respect to our rights to the existing master that become subject to Upstream Agreement.

On the first full calendar month following the date that Universal exercises its rights under the Upstream Agreement, if the sum of the advances, recording costs, marketing costs and promotion costs actually expended by us, on any existing Album that becomes subject to the Upstream Agreement, exceeds the total Net Proceeds credited to us in connection with the sale of such Album, Universal will pay us, as an advance against our future Net Profits under the recording agreement and the Upstream Agreement, fifty percent (50%) of our actual expenditures.

From the date that Universal receives its rights to any existing Album, Universal becomes, solely responsible for paying all artist royalties, third-party licensing fees and royalties, marketing, promotion and advertising costs related to the existing Album.

Under the Upstream Agreement, Universal grants us a fifty percent (50%) ownership interest in the copyright of each master subsequently recorded by the selected Artist, under the recording contract with Universal. Universal, however, has the exclusive and unlimited right to sell or license such masters, and we will not have the right to sell, transfer, grant, convey, assign, mortgage, pledge, hypothecate, or otherwise dispose of, or create any liens, encumbrances or security interests on any nature in respect to our rights to such masters.

For all subsequently recorded masters, Universal will be responsible for paying all recording costs and rights acquisition costs in securing all intellectual property rights and licenses necessary to allow Universal to sell Albums. Universal will, also, be responsible for paying all marketing and promotion costs for each Album title that it releases commercially, and will be responsible to pay artist royalties and royalties related to all licenses related to the exploitation of the Album and its content. According to the Upstream Agreement, Universal shall pay all advances, royalties and other monies payable directly to the particular Artist.

In consideration for the rights granted to Universal, under the Upstream Agreement, Universal agrees to pay us fifty percent (50%) of Universal's Net Profits earned from the sale or other exploitation of any and all of the masters and Albums that are subject to the Upstream Agreement. According to the Upstream Agreement, Net Profits mean the amount equal to Gross Revenues less the Deductions.

Under the Upstream Agreement, Gross Revenue include:

§ All monies actually received or credited to Universal from the sale of records in the United States minus reasonable reserves anticipated returns, actual returns and credits for returns, price discounts, and a distribution fee equal to twenty-five (25%) of United States Net Sales;

§ One hundred percent (100%) of Universal's Net Receipts in respect to licenses;

§ Royalties of calculated at a basic rate of nineteen percent (19%) of the applicable Royalty Base Price for records sold through normal retail channels outside the United States by Universal's direct and immediate principal foreign licensees; and

§ Fifty percent (50%) net receipts received by Universal, with respect to licenses of masters outside the United States on flat-fee or other royalty basis.

Deductions are:

§ A reserve for all reasonably anticipated future costs in connection with the particular Artist and/or masters recorded under the contract for anticipated marketing and promotions costs, recording costs, and music video costs; and

§ All direct costs and expenses incurred by Universal.

Under the Upstream Agreement, Universal will prepare accounting statements for us on a semi-annual basis. On or before each September 30, or March 31, Universal will send such accounting statements to us for the semi-annual accounting period ending the immediately preceding June 30th or December 31st, and will send American the amount of our share of any Net Profits, if any are then due and payable.

Foreign License Agreement

On January 25, 2006, we entered into the Exclusive Foreign License Agreement (“Foreign License Agreement”) with Universal. The term of the Foreign License Agreement runs simultaneously with the term of the Domestic Distribution Agreement. During the term of the Foreign License Agreement, Universal has the exclusive right to sell, license or otherwise exploit records and videos that its distributes under the Domestic Distribution Agreement through the rest of the Universe, excluding the United States.

In consideration of the rights granted, Universal agrees to pay us royalties on Net Sales. Under the Foreign License Agreement, Universal will prepare accounting statements for us on a semi-annual basis. On or before each September 30, or March 31, Universal will send such accounting statements to American for the semi-annual accounting period ending the immediately preceding June 30th or December 31st, and will send us the amount of our Royalties, if any, that are then due and payable.

Competition

The entertainment and recorded music industry is highly competitive. We face competition, from many other record companies, and from entertainment companies from other sectors of the entertainment industry (film and video games) for consumer household discretionary purchases of entertainment products. Record companies also compete for talented artists, producers and songwriters. Although there are many independent record labels, similar to American, three major record companies (BMG/Sony, Warner Music and Universal) currently control the distribution and market for pre-recorded music in the United States and around the world. Many of these record companies have significantly longer operating histories, greater financial resources, assets and larger music catalogs, and larger staffs than us. Our ability to compete in this industry depends on many factors, including but not limited to:

§ Our management’s and employees’ creativity, skills and relationships with artists, promoters, radio stations, distributors and retailers;

§ Our ability to sign Recording Agreements to secure new artists and Masters, and to expansion its music catalog;

§ Our ability to effectively market and sell its music products; and

§ Our ability to establish, and maintain a reputation for commercially releasing high quality music products.

Employees

As of August 8, 2006, we currently have 7 employees, and 6 are full-time. None of our employees are represented by a labor union and we have not entered into a collective bargaining agreement with any union. We have not

experienced any work stoppages and consider our relations with our employees to be good.

7

Item 1A. Risk Factors and Cautionary Statement Regarding Forward-Looking Information

An investment in our common stock involves a high degree of risk. You should carefully consider the following risk factors and the other information in this annual report before investing in our common stock. Our business and results of operations could be seriously harmed by any of the following risks. The trading price of our common stock could decline due to any of these risks.

Risks Associated with our Business

There is substantial doubt about our ability to continue as a going concern.

We incurred recurring net losses totaling \$2,071,520 for the period from inception (July 1, 2004) through April, 30, 2006. As of April 30, 2006 we have an accumulated deficit of \$3,465,741 and a working capital deficit of \$2,300,702. These conditions raise substantial doubt about our ability to continue as a going concern. Management's plans in this regard are to raise equity or loan financings as required. There are no assurances that we will be successful in this regard.

We are a development stage company, and we have no significant operating history.

We are a development stage company that has not had operations for many years. Our plans and businesses are “proposed” and “intended” but we may not be able to successfully implement them. Our primary business is the production, acquisition, marketing and sale of pre-recorded music. However, we have not yet released a music product and have not earned any revenues and have incurred losses since our incorporation. To date, our management’s efforts have been limited to organizational activities, business planning and seeking initial funding. We currently lack sufficient capital to generate revenue or operate our business in a profitable manner. As a development stage company, our prospects are subject to all the risks and uncertainties frequently encountered by companies in the music industry. In addition, we are subject to all of the risks, uncertainties, expenses, delays, problems, and difficulties typically encountered in the establishment of a new business. We expect that unanticipated expenses, problems, and technical difficulties will occur and that they will result in material delays in the development of our business. We may not obtain sufficient capital or achieve a significant level of operations and, even if we do, we may not be able to conduct such operations on a profitable basis.

We have limited financial resources which if not corrected will prevent and inhibit our ability to implement its business plan.

We have limited financial resources and have not generated any revenues to date. We cannot achieve revenues until we release and market new records from our catalog or from new musical performances of recording artists pursuant to Recording Contracts with those recording artists, their production companies or record labels. To secure new Recording Contracts requires us to pay substantial advances to the recording artists, their production companies or record labels. Prior to and concurrent with any commercial release of a new music product requires us to pay substantial marketing costs and consultant fees related to the marketing of the product. To begin generating revenues, we must have substantial funding. There can be no assurance that we will raise sufficient funds to release its music products, and therefore no assurances that we will receive any revenues from its operation, nor operate on a profitable basis.

We may not be able to find music products with mass consumer acceptance and we cannot predict sales revenues from the release of music products.

Although we will attempt to locate and secure Recording Agreements with record labels, production companies, producers, and recording artists, the record industry is very competitive, there is no assurance that we will secure

contracts with talented record labels, production companies, producers, and recording artists. Although we may secure Recording Agreements, the music products derived from the master recordings delivered pursuant to those Recording Agreements and the compilation albums derived from American's music catalog may not receive mass consumer appeal and may not generate significant sales revenues despite our marketing efforts and expenditures. The sale of recorded music products to consumers is entirely speculative, and there is no way to assure the amount of music products that will be sold from any of our commercial releases of its music products.

8

We may not be able to obtain sufficient capital to implement our business plan.

To successfully implement our business plan, we need access to capital. Our ability to implement our business plan will be limited unless we are able to obtain capital through additional debt or equity financing. We cannot assure that such debt or equity financing will be obtained or that, if obtained, such financing will be on terms that are favorable to us or sufficient for our needs. If we are unable to obtain sufficient financing, we may be unable to fully implement our business plan, and we may be required to limit or discontinue our operations.

Acquisitions involve risks that could cause our actual growth to differ from our expectations and lower the market price for our common stock

While we are not currently a party to any agreements regarding any material acquisitions, we expect to continue to seek to acquire master recordings, music publishing rights and other record companies. Acquisitions involve risks that could cause our actual growth to differ from our expectations. For example:

§ We may not be successful in identifying attractive acquisitions. We compete with other companies to acquire master recordings, music publishing rights and other record companies. We expect that this competition will continue, which may inhibit our ability to complete suitable acquisitions on favorable terms.

§ We may be unable to successfully integrate acquired businesses and realize anticipated economic, operational and other benefits in a timely manner. If we are unable to successfully integrate acquired businesses, product lines and personnel, we may incur substantial costs and delays or other operational, technical or financial problems. In addition, efforts to integrate or failure to successfully integrate acquisitions may divert management's attention from our existing business and may damage our relationships with our key employees and customers.

The recorded music industry is highly competitive, and we cannot assure the success of our individual products, or the overall success of our business plan.

The recorded music industry is highly competitive. We face competition for discretionary consumer purchases of our products from other record companies and other entertainment companies, such as film and video companies. Many of these competitors have greater financial and other resources, larger development staffs, and more effective marketing organizations than we do. In the United States three record companies control eighty percent (80%) of record sales: Warner Music Group, Universal Music Group, and Sony Music Entertainment/BMG. Independent record companies generate the balance of record sales. Our ability to compete in this market depends largely on:

- § The skill and creativity of our employees and their relationships with artists;
- § Our ability to sign new and established artists and songwriters;
- § The expansion and utilization of our music catalog;
- § The acquisition of licenses to enable us to create compilation packages;
- § The effective and efficient distribution our products; and

§ Our ability to build and maintain a reputation for producing, licensing, acquiring, marketing and distributing high quality music.

Since we are in a creative industry, we may be able to generate sufficient revenues from successful releases to exceed the costs of unsuccessful product releases.

The recorded music industry, like other creative industries, involves a substantial degree of risk. Each recording is an individual artistic work, and its commercial success is primarily determined by consumer taste, which is unpredictable and constantly changing. As a result, we cannot assure the financial success of any particular release, the timing of success or the popularity of any particular artist. We may be unable to generate sufficient revenues from successful releases to cover the costs of unsuccessful releases.

Delays in the delivery of new master records by third-party labels could materially adversely affect our business, financial results, and operating results.

The timing of releases of New Records may materially affect our business, financial condition and results of operations. To secure New Records for release and sale to consumers, we will enter into Distribution Agreements with third party Labels. Pursuant to these Distribution Agreements, the third party Labels agree to deliver to us commercially satisfactory master recordings that have not been previously released for sale to consumers. Our results of operations are subject to seasonal variations. In particular, our revenues and operating income are affected by end-of-the-year holiday sales. In accordance with industry practice, we record revenues for music products when the products are shipped to retailers. In anticipation of holiday sales, retailers purchase products from us prior to December. As a result, our revenues and operating income typically decline during December, January and February. If releases planned for the peak holiday season are delayed, our business, financial results and operating results could be materially adversely affected.

If we experience higher than expected returns, our financial condition could be materially and adversely affected.

Our products are sold on a returnable basis, which is standard music industry practice. We set reserves for future returns of products estimated based on return policies and experience. We expect that our actual return experience will be within standard industry parameters. However, we may experience an increase in returns over our established reserves. If this occurs our business, results of operations and financial condition could be materially and adversely affected.

Losses of Key Personnel could materially and adversely affect our business, financial condition or results of operations.

Our success depends largely on the skills, experience and efforts of our executive officers and key employees, especially our Chairman and Chief Executive Officer, David Michery. The loss of the services of Mr. Michery or other members of our senior management, could materially adversely affect our business, financial condition or results of operations. In addition, in large part, our success will depend on our ability to attract and retain qualified management, marketing and sales personnel. We experience competition for qualified personnel with other companies and organizations. Our inability to hire or retain qualified personnel could have a material adverse effect on our business, financial condition or results of operations.

We may not manage our growth properly.

We intend to grow in the future, and our growth presents numerous challenges and places significant additional pressure on our managerial, financial and other resources. To manage such growth it is necessary that we continue to implement and improve our operating systems, attract and train more qualified personnel, integrate acquired businesses and products, and expand our facilities. If we fail to effectively manage our growth, our business, operating results or financial condition could be materially adversely affected.

Our operations are seasonal.

Our results of operations are subject to seasonal variations. In particular, our revenues and operating income are affected by end-of-the-year holiday sales. In accordance with industry practice, we record revenues for music products when the products are shipped to retailers. In anticipation of holiday sales, retailers purchase products from us prior to December. As a result, our revenues and operating income typically decline during December, January and February. In addition, timing of a new release may materially affect our business, financial condition and results of operations. For example, if releases planned for the peak holiday season are delayed, our business, financial results and operating

results could be materially adversely affected.

We are dependent on third parties for certain licensing rights.

We license the rights to numerous master recordings and compositions from third parties for recording and re-recording of music to produce compilations and to expand of our catalog. We also seek to license the rights to our master recordings and compositions to third parties for use in albums for a royalty or a flat fee. These cross-licensing arrangements are generally made possible by existing industry practices based on reciprocity. If these practices change, we cannot assure that we will be able to obtain licenses from third parties on satisfactory terms, or at all, and our business, financial condition and operating results, particularly with respect to compilation products, could be materially and adversely affected.

If David Michery dies or becomes incapacitated or in the event that he ceases to be actively engaged in management, in a controlling capacity, Universal will have the right to terminate the Domestic Distribution Agreement.

Our Exclusive Manufacturing and Distribution Agreement with Universal is a material contract to our current and future operations (see “Business - Contracts with Universal”). Pursuant to the terms of the Domestic Distribution Agreement, David Michery’s active and full time participation in our business affairs is required. In the event of his death or incapacity or in the event that he ceases, for whatever reason to be actively engaged in our management in a controlling capacity, Universal has the right, without liability of any kind to us whatsoever, to terminate the Domestic Distribution Agreement. Currently, this is our only agreement in place, and its termination would have a material effect on our business, financial condition and operating results.

Risks Associated with Investing in our Common Stock

There is a limited trading market for our common stock.

Our common stock is traded on the OTC Bulletin board under the symbol “ASWD.OB.” There has been virtually no trading activity in our stock recently, and when it has traded, the price has fluctuated widely. We consider our common stock to be “thinly traded” and any last reported sale prices may not be a true market-based valuation of the common stock. A consistently active trading market for our stock may not develop at any time in the future. Stockholders may experience difficulty selling their shares if they choose to do so because of the illiquid market and limited public float for our stock. It is possible that even a limited public market for our common stock will not be sustained after the date of this annual report or at a time at which you may desire to sell your shares.

The volatility of our stock price affect our may adversely affect the market price for our common stock.