

American Southwest Music Distribution, Inc  
Form 10QSB  
March 22, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington D.C. 20549**  
**FORM 10-QSB**

(Mark One)

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

For the quarterly period ended January 31, 2007

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: **000-26753**

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

(Exact name of registrant 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, CA 90069**

(Address of principal executive offices)

Issuer's telephone number: **(310) 659-8770**

(Former name, former address and former fiscal year, if changed since last report)

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Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

**APPLICABLE ONLY TO CORPORATE ISSUERS**

As of March 21, 2007, 10,365,736 shares of our common stock were outstanding.

Transitional Small Business Disclosure Format: Yes  No

**PART 1: FINANCIAL INFORMATION**

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**  
**(FORMERLY KNOWN AS GL ENERGY AND EXPLORATION, INC.)**  
**( A DEVELOPMENT STAGE COMPANY)**  
**CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>January 31, 2007</b>	<b>April 30, 2006 (adjusted for 74:1 reverse split)</b>
Fixed assets:		
Equipment	\$ 43,266	\$ 40,501
Furniture and fixtures	42,488	42,488
Leasehold improvements	7,000	7,000
	92,754	89,989
Accumulated depreciation	(43,977)	(28,620)
Total fixed assets	48,777	61,369
Other assets:		
Music catalog, net of accumulated amortization of \$0	4,530,983	4,216,000
Security deposits	3,370	3,370
Total other assets	4,534,353	4,219,370
<b>TOTAL ASSETS</b>	<b>\$ 4,583,130</b>	<b>\$ 4,280,739</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses payable	\$ 333,074	\$ 118,539
Liability for legal settlement by Company on behalf of entity formerly owned by significant Company stockholder	1,280,208	1,244,583
Notes and loans payable, stockholders and entities owned by them	86,000	247,711
Notes and loans payable, others - unrelated third parties	1,397,500	689,869
<b>TOTAL LIABILITIES</b>	<b>3,096,782</b>	<b>2,300,702</b>
Stockholders' equity:	-	24

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Preferred stock - \$0.001 par value; 5,000,000 shares authorized, 0 shares issued and outstanding

Common stock - \$0.001 par value; 100,000,000 shares authorized, 10,365,736\* and 59,977,042 issued and outstanding respectively

	10,327	59,977
Additional paid-in capital	7,247,730	5,385,777
Deficit accumulated during the development stage	(5,771,709)	(3,465,741)
Total stockholders' equity	1,486,348	1,980,037
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,583,130	\$ 4,280,739

\* Adjusted for 74:1 reverse split effective August 24, 2006

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**  
**(FORMERLY KNOWN AS GL ENERGY AND EXPLORATION, INC.)**  
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**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>Three months ended January 31, 2007</b>	<b>Three months ended January 31, 2006</b>	<b>Nine months ended January 31, 2007</b>	<b>Nine months ended January 31, 2006</b>	<b>Inception (July 1, 2004) through April 30, 2006</b>	<b>Inception (July 1, 2004) through January 31, 2007</b>
<b>EXPENSES</b>						
Consulting fees and services:						
Related parties, including through issuance common stock of \$1,393,847 and \$0 for nine months ended	\$ 1,362,271	\$ 78,950	\$ 1,517,218	\$ 145,795	\$ 348,975	\$ 1,866,193
Others, including incurred through issuance of common stock of \$60,000 and \$0 for nine months ended	-	30,000	131,120	75,000	-	131,120
	1,362,271	108,950	1,648,338	220,795	348,975	1,997,313
General and administrative, including through issuance of common stock for legal fees of \$60,400 and \$0 for nine months ended	157,576	36,025	361,256	75,416	352,809	714,065
Depreciation and amortization	33,317	10,575	87,441	21,053	46,536	133,977
Total expenses	1,553,164	155,550	2,097,035	317,264	748,320	2,845,355
Loss from operations	(1,553,164)	(155,550)	(2,097,035)	(317,264)	(748,320)	(2,845,355)

Other costs and expenses						
Loss incurred on legal settlement by Company on behalf of entity formerly owned by significant Company stockholder	(11,875)	-	(35,625)	-	(1,244,583)	(1,280,208)
Debt conversion costs	(46,232)		(46,232)			(46,232)
Interest expense	(41,811)	(18,445)	(127,076)	(41,191)	(78,617)	(205,693)
Total other costs and expenses	(99,918)	(18,445)	(208,933)	(41,191)	(1,323,200)	(1,532,133)
NET LOSS	\$ (1,653,082)	\$ (173,995)	\$ (2,305,968)	\$ (358,455)	\$ (2,071,520)	\$ (4,377,488)

Net loss per share - basic and diluted (adjusted for 74:1 reverse split)	\$ (1.52)	\$ -	\$ (2.54)	\$ -	\$ (2.56)	\$ (5.10)
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Weighted average shares outstanding:						
Basic and diluted (adjusted for 74:1 reverse split)	\$ 1,087,905	\$ -	\$ 908,941	\$ -	\$ 810,501	\$

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**  
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**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**Period from July 1, 2004 (Inception) through January 31, 2007**

	Preferred Stock		Common Stock		Additional	Deficit	
	Shares	Amount	Shares	Amount	Paid in	Accumulated	Total
					Capital	During the	
						Development	
						Stage	
Balance, April 30, 2005	-	\$ -	4,294	\$ 4	\$ 4,294,733	\$ (117,246)	\$ 4,177,491
Recapitalization of common and preferred shares of GL Energy and Exploration, Inc., as acquiree in merger with Company as acquirer	23,980	24	59,972,748	59,973	1,091,044	(1,394,401)	(243,360)
Net loss						(1,954,094)	(1,954,094)
Balance, April 30, 2006	23,980	\$ 24	59,977,042	\$ 59,977	\$ 5,385,777	\$ (3,465,741)	\$ 1,980,037
Common stock issued for consulting fees and services			7,062,352	7,024	1,507,223		1,514,247
74:1 reverse stock split	-		(65,085,460)	(65,085)	65,085		-
Shares issued in settlement of notes and loans payable, stockholders and entities owned by them			310,451	310	297,722		298,032
Preferred shares converted into common	(23,980)	(24)	8,101,351	8,101	(8,077)		-
Net loss						(2,305,968)	(2,305,968)
	-	\$ -	10,365,736	\$ 10,327	\$ 7,247,730	\$ (5,771,709)	\$ 1,486,348

Balance, January  
31, 2007



**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**  
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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine months ended January 31, 2007</b>	<b>Nine months ended January 31, 2006</b>	<b>Inception (July 1, 2004) through April 30, 2006</b>	<b>Inception (July 1, 2004) through January 31, 2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Net loss	\$ (2,305,968)	\$ (358,455)	\$ (2,071,520)	\$ (4,377,488)
Adjustments to reconcile net loss to cash used in operating activities:				
Depreciation and amortization	87,441	21,053	46,536	133,977
Loss incurred on legal settlement by Company on behalf of entity formerly owned by significant Company stockholder	35,625	-	1,244,583	1,280,208
Common stock issued for consulting fees and services	1,514,247	-	-	1,514,247
Debt conversion costs	46,232	-	-	46,232
Accounting and legal fees added to notes and loans payable,				
stockholders and entities owned by them	25,000	-	-	25,000
Net changes in:				
Decrease in prepaid expenses	-	9,498	-	
Increase in security deposits	-	-	(3,370)	(3,370)
Increase in accounts and accrued expenses payable	227,892	45,046	93,201	321,093
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(369,531)</b>	<b>(282,858)</b>	<b>(690,570)</b>	<b>(1,060,101)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Decrease in officer loan receivable		7,347		-
Acquisition of music catalogs	(298,983)	-	-	(298,983)
Acquisition of leasehold improvements, furniture and equipment	(2,765)	(11,080)	(13,252)	(16,017)
	(301,748)	(3,733)	(13,252)	(315,000)

NET CASH USED IN INVESTING  
ACTIVITIESCASH FLOWS FROM FINANCING  
ACTIVITIES:

Notes and loans payable, stockholders and entities owned by them	36,279	15,000	73,822	110,101
Notes and loans payable, others - unrelated third parties	635,000	271,591	628,000	1,263,000
Common shares issued for cash	-	-	2,000	2,000
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>671,279</b>	<b>286,591</b>	<b>703,822</b>	<b>1,375,101</b>

NET CHANGE IN CASH AND CASH  
EQUIVALENTS

-	-	-	-
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CASH AND CASH EQUIVALENTS  
AT BEGINNING OF PERIOD

-	-	-	-
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CASH AND CASH EQUIVALENTS  
AT END OF PERIOD

\$	-	\$	-	\$	-	\$	-
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Supplementary disclosures of cash flow  
information

## Cash paid during the year for:

Income taxes	\$	-	\$	-	\$	-	\$	-
Interest expense	-	-	-	-	-	-	-	-

Non-cash operating, investing and  
financing activities:Net assets (liabilities) acquired by  
Company as part of merger

## Assets acquired:

Accounts receivable	\$	-	\$	-	\$	-	\$	-
Total assets acquired	\$	-	\$	-	\$	-	\$	-



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**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Continued**

	<b>Nine months ended January 31, 2007</b>	<b>Nine months ended January 31, 2006</b>	<b>Inception (July 1, 2004) through April 30, 2006</b>	<b>Inception (July 1, 2004) through January 31, 2007</b>
Supplementary disclosures of cash flow information, continued				
Liabilities acquired:				
Accounts and accrued expenses payable	\$ -	\$ -	\$ 3,306	\$ 3,306
Loans payable, shareholders	-	-	240,053	240,053
Total liabilities acquired	-	-	243,359	243,359
Net liabilities assumed	\$ -	\$ -	\$ (243,359)	\$ (243,359)
Change in Company's stockholders' equity				
Preferred stock issued at par value	\$ -	\$ -	\$ 24	\$ 24
Common stock issued at par value	-	-	59,973	59,973
Increase in additional paid-in capital resulting from difference				
in value of shares exchanged between GL Energy and				
American Southwest Music Distribution, Inc.	-	-	1,091,044	1,091,044
Increase in accumulated deficit resulting from difference				
in value of shares exchanged between GL Energy and				
American Southwest Music Distribution, Inc.	-	-	(1,394,400)	(1,394,400)
	\$ -	\$ -	\$ (243,359)	\$ (243,359)

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Common shares issued for music catalog	\$	-	\$	-	\$	4,216,000	\$	4,216,000
Common shares issued for furniture, fixtures, and equipment		-		-		76,737		76,737
Common shares issued for services		1,470,200		-		-		1,470,200
Common stock issued at par	\$	310	\$	-	\$	-	\$	310
Additional paid-in capital		297,722		-		-		297,722
		298,032		-		-		298,032
Notes and loans payable, stockholders and entities owned by them								
converted into common stock								
Debt converted		222,441		-		-		222,441
Accrued interest payable on debt		29,359		-		-		29,359
		251,800		-		-		251,800
Excess of fair value of stock issued over debt converted								
debt conversion costs	\$	46,232	\$	-	\$	-	\$	46,232

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A - ADJUSTMENTS**

In the opinion of management, all adjustments consisting only of normal recurring adjustments necessary for a fair statement of (a) results of operations for the three month and nine month periods ended January 31, 2007 and 2006, respectively, and for the period from inception (July 1, 2004) to January 31, 2007, (b) the financial position at January 31, 2007, (c) the statements of cash flows for the nine month periods ended January 31, 2007 and 2006, respectively, and for the period from inception (July 1, 2004) to January 31, 2007, and (d) the changes in stockholders' equity for the nine month period ended January 31, 2007 and for the period from inception (July 1, 2004) to January 31, 2007 have been made. The results of operations for the three months and the nine months ended January 31, 2007 are not necessarily indicative of the results to be expected for the full year.

**NOTE B UNAUDITED INTERIM FINANCIAL INFORMATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for financial statements. For further information, refer to the audited consolidated financial statements and notes thereto for the year ended April 30, 2006 included in the Company's Form 10-KSB filed with the Securities and Exchange Commission on August 25, 2006

The Company's consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The liquidity of the Company has been adversely affected in recent years by significant losses from operations. As further discussed in Note 3, the Company incurred losses of \$2,305,968 for the nine months ended January 31, 2007 and losses for the period from the inception of their development stage (July 1, 2004) to January 31, 2007 of \$4,377,488.

At January 31, 2007, the current consolidated Company has limited cash reserves, with its current liabilities exceeding its cash by \$3,096,782.

The aforementioned financial condition indicates that the Company will have substantial difficulty meeting its financial obligations for the balance of this fiscal year. These factors raise substantial doubt as to the Company's ability to continue as a going concern. Recently, operations have been funded by loans issued to officers and other related and unrelated parties and occasional issuances of common stock.

As further discussed below in Note 1, the Company was created to generate revenue through music licensing, recording, and distribution. American Southwest acquired the rights to several music master catalogs for the purpose of generating revenues from the sale of records derived from these catalogs. The Company is hopeful it will continue to be able to find sufficient financing until that time that it can begin its operations and continue as a going concern in its present form. Accordingly, the consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amount and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern in its present form.

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 - NATURE OF BUSINESS / ORGANIZATION**

**Nature of Business**

GL Energy and Exploration, Inc. (herein referred to as "GL Energy" the "Company") was a development stage company with no business operations through March 2006. GL Energy was incorporated in Delaware on October 7, 1998 under the name LRS Group Incorporated. On October 15, 1998, the name was changed to LRS Capital, Inc. On October 10, 2001, the company changed its name to GL Energy and Exploration, Inc. GL Energy was traded on the OTC Bulletin board under the symbol "GEEX.OB".

**Merger with American Southwest Music Distribution, Inc.**

American Southwest Music Distribution, Inc. (herein referred to as "American Southwest" and the "Company") was incorporated in the State of Texas in May of 2004. American Southwest remained inactive until it commenced development stage activity in July of 2004.

American Southwest was created to generate revenue through music licensing, recording, and distribution. American Southwest acquired the rights to several music master catalogs for the purpose of generating revenues from the sale of records derived from these catalogs. The expansion and exploitation of its music catalog is an integral part of American Southwest's business and growth strategy. American Southwest 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.

On March 13, 2006, American Southwest and GL Energy entered into a Securities Purchase Agreement and Plan of Reorganization. As part of the agreement GL Energy issued 22,500,000 shares of their \$.001 par value common stock and 23,980 shares of their \$.001 par value Series A convertible preferred stock to David Michery and Kent Puckett, the sole shareholders of American Southwest, in exchange for all of the issued and outstanding \$.001 par value common shares of American Southwest, totaling 4,294 shares.



Since GL Energy had no assets of substance prior to the transaction, for accounting purposes the acquisition has been treated as a merger of both companies and recapitalization of the shares of American Southwest, with GL Energy as the acquirer and American Southwest as the surviving entity (reverse acquisition). The accounting rules for reverse acquisitions require that, beginning with the date of the acquisition (March 13, 2006), the balance sheet include the assets and liabilities of American Southwest and the equity accounts be recapitalized to reflect the net equity of American Southwest. Accordingly, the historical operating results are now the operating results of American Southwest. The historical development stage entity financial statements prior to March 13, 2006 are those of American Southwest.

On August 18, 2006 the State of Delaware approved the Company changing its name from GL Energy and Exploration, Inc. to American Southwest Music Distribution, Inc. Effective August 24, 2006 the Company is now traded on the OTC Bulletin board under the symbol ASWD. In addition, the Company effectuated a 1 for 74 reverse split of its common stock during the quarter ended October 31, 2006.

During the quarter ended October 31, 2006, David Michery and Kent Puckett, both officers and shareholders of the Company converted a total of 23,980 shares of preferred convertible stock that they received in the merger into 8,101,351 shares of the Company's common stock on a post reverse split basis.

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 SUMMARY OF ACCOUNTING POLICIES**

**Financial Statement Presentation**

The financial statements presented herein reflect the consolidated financial statements of GL Energy and American Southwest after giving effect to the reverse merger of the two companies on a historical basis.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**Use of Estimates**

In preparing financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenue and expenses in the statement of expenses. Actual results could differ from those estimates.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the two merged entities. All significant inter-company transactions and balances have been eliminated in consolidation.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Revenue Recognition**

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered, the sales price is fixed or determinable, and collectability is reasonably assured.

**Music Catalog**

*Cost basis*

The cost basis in the music catalog is recorded at cost. Amortization will be computed using the straight-line method over periods ranging from 1 to 5 years. Amortization will be recorded once revenues commence.

*Rate of obsolescence*

A number of the Music Catalogues date from contracts entered into from 1997 - 1998 that provide for a limited number of album or single release recordings and options for extension thereon. Accordingly, there is a risk that the Music Catalogues owned by the Company are subject to competition from later releases by the artists through other entities besides the Company, as well as the risk of the passage of time on the salability on the masters owned by the Company.

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

**Fixed assets**

Fixed assets are stated at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

*Estimated*

*Description*

*useful life*

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Furniture and fixtures

5 years

Equipment

5 years

Leasehold improvements

2 years

**Impairment of Long-Lived and Other Intangible Assets**

The Company reviews the carrying value of both its long-lived and other intangible assets annually, or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. At January 31, 2007 the Company's evaluation determined that no provision for impairment of either its

other intangible assets (its Music Library ) or its fixed assets was required at that date.

**Income Taxes**

The Company recognizes deferred tax assets and liabilities based on differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that are expected to be in effect when the differences are expected to be recovered. The Company provides a valuation allowance for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

**Basic and Diluted Loss per Share**

The Company complies with the requirements of the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earning per Share ( SFAS No. 128 ). SFAS No. 128 specifies the compilation, presentation and disclosure requirements for earnings per share for entities with publicly held common stock or potentially common stock. Net loss per common share, basic and diluted, is determined by dividing the net loss by the weighted average number of common shares outstanding.

Net loss per common share-diluted does not include potential convertible preferred shares (See Note 1).

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 2 SUMMARY OF ACCOUNTING POLICIES (CONTINUED)**

**Consideration of Other Comprehensive Income Items**

SFAS 130 Reporting Comprehensive Income requires companies to present comprehensive income (consisting primarily of net income plus other direct equity changes and credits) and its components as part of the basic financial statements. The Company's financial statements do not contain any changes in equity that are required to be reported separately in comprehensive income.

**Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123 (R) became effective for the interim period beginning July 1, 2005. The Company does not anticipate that the adoption of SFAS No. 123(R) will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 20, Accounting for Non-monetary Transactions. The amendments made by SFAS No. 153 are based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for non-monetary exchanges of similar productive assets and replace it with a broader exception for exchanges of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement shall be applied prospectively and is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for non-monetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The Company does not anticipate that the adoption of SFAS No. 153 will have a significant impact on the Company's overall results of operations or financial position.

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections, that applies to all voluntary changes in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 will be effective for the Company for fiscal year ended December 31, 2007. The Company does not anticipate that the adoption of SFAS No. 154 will have an impact on the Company's overall results of operations or financial position.

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 GOING CONCERN**

As shown in the accompanying consolidated financial statements, the Company incurred recurring net losses totaling \$4,377,488 as a development stage entity for the period from inception (July 1, 2004) through January 31, 2007. The Company has an accumulated deficit of \$5,727,662 and a deficiency in working capital of \$3,096,782 as of January 31, 2007. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. Management is trying to raise additional capital through sales of stock or loan financing arrangements. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

**NOTE 4 INCOME TAXES**

The Company incurred no federal income tax expense for the nine months ended January 31, 2007, and for the period from inception (July 1, 2004) to January 31, 2007. The Company has net operating loss carryforwards available of \$4,377,488 to offset future net income. Due to uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has placed a full valuation allowance against its net deferred tax asset. At such time as it is determined that it is more likely than not that the deferred tax asset is realizable, the valuation allowance will be reduced. Furthermore, the net operating loss carry forward may be subject to further limitation pursuant to Section 382 of the Internal Revenue Code.

The cumulative net operating loss carryforward will expire in accordance with the following schedule:

April 30, 2025	\$ 117,426
2026	1,954,094
2027	2,305,968
	\$ 4,377,488

Deferred income taxes consist of the following:

Deferred tax assets	\$ 1,488,346
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Less: valuation allowance	1,488,346
	\$ --

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

**(FORMERLY KNOWN AS GL ENERGY AND EXPLORATION, INC.)**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 NOTES AND LOANS PAYABLE**

Details regarding notes and loans payable follow below:

**Stockholders and the entities owned by them:**

	<b>January 31, 2007</b>	<b>April 30 2006</b>
Donald Byers, former President and Chairman of the Board of pre-merger GL Energy and Exploration, Inc. and a holder of approximately 16,190,000 of the post-merger entity's \$.001 par value common shares		
Unsecured \$49,009 note dated April 25, 2005 held by Byers and Associates, an entity owned by Donald Byers. The note was due and payable on February 28, 2006. The note accrued interest at a rate of 10% per annum, in the event of default, on the entire unpaid principal balance. The note included an amount equal to \$10,916, which represents prior interest expense incurred added to the note balance. The principal balance plus accrued interest that was due on February 28, 2006 had not been paid and the note was in default. In December 2006 the principal balance of \$49,009 plus \$3,290 of accrued interest was converted into 61,013 shares of the Company's common stock. A loss on conversion of \$6,274 was recorded on the transaction.	\$ -	\$ 49,009
Unsecured \$16,592 note dated May 26, 2005 held by Byers and Associates, an entity owned by Donald Byers. The note was due and payable on February 28, 2006. The note accrued interest at a rate of 10% per annum. The principal balance plus accrued interest that was due on February 28, 2006 had not been paid and the note was in default. In December 2006 the principal balance of \$16,592 plus \$2,537 of accrued interest was converted into 24,597 shares of the Company's common stock. A loss on conversion of	-	16,592

\$4,484 was recorded on the transaction.

Unsecured \$101,180 loans payable to Don Byers. The loans are due on demand and accrue interest at 10% per annum. In December 2006 \$42,680 of the principal balance plus \$3,893 of accrued interest was converted into 58,824 shares of the Company's common stock. A loss on conversion of \$9,898 was recorded on the transaction. In addition, in December 2006 \$35,000 of the principal balance plus \$14,914 of accrued interest was converted into 55,305 shares of the Company's common stock. A loss on conversion of \$3,179 was recorded on the transactions, leaving a balance of \$23,500 due.

23,500 101,180

Unsecured \$25,000 loans payable to Don Byers. The loans resulted from accounting and legal fees paid on behalf of the Company in October 2006. The loans are due on demand and currently are non-interest bearing.

25,000 -

Unsecured \$24,409 loan payable to Wellstar International, an entity owned by Don Byers. The loan was due on demand and accrues interest at 10% per annum. In December 2006 \$24,409 of the principal balance plus \$2,227 of accrued interest was converted into 28,717 shares of the Company's common stock. A loss on conversion of \$932 was recorded on the transaction.

- 24,409

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 NOTES AND LOANS PAYABLE (CONTINUED)**

Details regarding notes and loans payable follow below:

**Stockholders and the entities owned by them (continued):**

Unsecured \$10,800 loan payable to Northern Business, an entity owned by Don Byers. The loan was due on demand and accrues interest at 10% per annum. In December 2006 the principal balance of \$10,800 plus \$3,798 of accrued interest was converted into 16,811 shares of the Company's common stock. A loss on conversion of \$1,541 was recorded on the transaction.

	\$	-	\$	10,800
		<b>48,500</b>		<b>201,990</b>

**Other Stockholders**

Unsecured \$37,500 loan payable to Chris Lotito, a minority shareholder. The loan is due

on demand and accrue interest at 10% per annum. It continues to accrue interest and the holder has indicated the intention not to demand payment of the amount due for a period of at least one year from April 30, 2006.

	37,500		37,500
--	--------	--	--------

Unsecured \$8,222 loan payable to David Michery, the Company's Chief Executive Officer. The loan was non-interest bearing and due on demand.

	-		8,221
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**Notes and loans payable, stockholders and the entities owned by them**

	86,000		247,711
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**Other unrelated third parties**

<p>\$750,000 unrelated third party note dated August 4, 2006 held by Generation Leasing, LLC. The note was due and payable on December 30, 2006. The note calls for a monthly payment of \$9,375, which represents interest only calculated on an annual interest rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment. All assets of the Company, including intangibles, patents, and purchase contracts, are pledged as security for repayment. This note consolidates five \$150,000 notes payable to Generation Leasing, LLC which were cancelled by the holder pursuant to the Company's agreement to do so.</p>	750,000	422,917
<p>\$150,000 unrelated third party note dated May 25, 2006 held by Generation Leasing, LLC, net of unamortized deferred loan origination fees of \$8,571. The note was due and payable on December 30, 2006. The note called for a monthly payment of \$1,875, which represented interest only calculated on an annual interest rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment. All assets of the Company, including intangibles, patents, and purchase contracts, are pledged as security for repayment.</p>	150,000	-
<p>\$100,000 unrelated third party note dated October 19, 2006 held by Mark Villi. The note was due and payable on November 24, 2006. The note accrues interest at a rate of 10% per annum. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment.</p>	100,000	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 NOTES AND LOANS PAYABLE (CONTINUED)**

**Other unrelated third parties (continued)**

\$150,000 unrelated third party note dated September 23, 2004 held by Pegasus Capital, Inc. The note accrued interest at a rate of 6.5% per annum.

The entire outstanding unpaid principal balance plus accrued interest was due and payable on November 21, 2004 in either cash or common stock of the Company equal to the fair market value of the unpaid obligation. In the event of default, the entire unpaid principal balance and all accrued interest was to become immediately due and payable, while interest was to accrue at a rate of 10% starting from the date of the note. The principal balance plus accrued interest that was due on November 21, 2004 was not paid and the note was in default. It continues to accrue interest and the holder has indicated the intention not to demand payment of the amount due for a period of at least one year from April 30, 2006.

\$	150,000	\$	150,000
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\$50,000 unrelated third party note dated July 12, 2006 held by Visionet Television Network, Inc. The note was due and payable on January 12, 2007 and accrues interest at a rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment. The note is personally guaranteed by David Michery, the Company's Chief Executive Officer.

50,000	-
--------	---

\$38,000 unrelated third party note dated April 25, 2005 held by Pegasus Capital, Inc. The note was due and payable on March 1, 2006, and under the note provision did not accrue interest. In the event of default, interest was to accrue at a rate 10% per annum. The entire outstanding unpaid principal balance plus accrued interest was due and payable in either cash or common stock of the Company equal to the fair market value of the unpaid obligation. The principal balance plus accrued interest that was due on March 1, 2006 had not been paid and the note was in default. It continues to accrue interest and the holder has indicated the intention not to demand payment of the amount due for a period of at least one year from April 30, 2006.

38,000	38,000
--------	--------

\$37,000 unrelated third party note dated August 6, 2006 held by Generation Leasing, LLC. The note was due and payable on November 6, 2006 and accrues interest at a rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment.

37,000 -

\$25,000 unrelated third party note dated September 23, 2004 held by Pegasus Capital, Inc. The note accrues interest at a rate of 6.5% per annum. The entire outstanding unpaid principal balance plus accrued interest was due and payable on November 21, 2004 in either cash or common stock of the Company equal to the fair market value of the unpaid obligation. In the event of default, the entire unpaid principal balance and all accrued interest was to become immediately due and payable, while interest was to accrue at a rate of 10% starting from the date of the note. The principal balance plus accrued interest that was due on November 21, 2004 had not been paid and the note was in default. It continues to accrue interest and the holder has indicated the intention not to demand payment of the amount due for a period of at least one year from April 30, 2006.

25,000 25,000

\$25,000 unrelated third party note dated June 15, 2006 held by Generation Leasing, LLC. The note was due and payable on September 15, 2006 and accrues interest at a rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment.

25,000 -

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.****(FORMERLY KNOWN AS GL ENERGY AND EXPLORATION, INC.)****(A DEVELOPMENT STAGE COMPANY)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****NOTE 5 NOTES AND LOANS PAYABLE (CONTINUED)****Other unrelated third parties (continued)**

\$10,000 unrelated third party note dated August 31, 2004 held by Pegasus Capital, Inc. The note accrued interest at a rate of 6.5% per annum. The entire outstanding unpaid principal balance plus accrued interest was due and payable on August 31, 2005. There was to be no pre-payment of any kind without the written consent of both parties. In the event of default the entire unpaid principal balance and all accrued interest was to become immediately due and payable, while interest was to accrue at a rate of 25% starting from the date of the note. The principal balance plus accrued interest that was due on August 31, 2005 had not been paid and the note was in default. It continues to accrue interest and the holder has indicated the intention not to demand payment of the amount due for a period of at least one year from April 30, 2006.	\$	10,000	\$	10,000
\$18,000 unrelated third party note dated November 20, 2006 held by Generation Leasing, LLC. The note was due and payable on December 20, 2006 and accrues interest at a rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment.		18,000		-
\$44,500 unrelated third party note dated January 1, 2007 held by Alex Jaramishian. The note was due and payable on February 1, 2007 and accrues interest at a rate of 15%. Interest continues to accrue on this now defaulted note payable since the holder has indicated his intention not to demand payment.		44,500		-
Unsecured \$43,952 loan payable to Three Sisters Investment Corp. The loan was due on demand and accrued interest at 10% per annum. In December 2006 the principal balance of \$43,952 plus \$12,842 of accrued interest was converted into 65,184 shares of the Company's common stock. A loss on conversion of \$5,782 was recorded on the transaction.		-		43,952



<b>Notes and loans payable, others</b>	<b>unrelated third parties</b>	<b>1,397,500</b>	<b>689,869</b>
		<b>\$ 1,483,500</b>	<b>\$ 937,580</b>

Accounts payable and accrued expenses payable at January 31, 2007 and April 30, 2006 includes \$12,477 and \$9,390, respectively of accrued interest payable to Company stockholders and entities owned by them. Accounts payable and accrued expenses payable at January 31, 2007 and April 30, 2006, includes \$97,740 and \$51,212 of accrued interest payable to unrelated parties, respectively.

Interest expense incurred by the Company to Company stockholders and entities owned by them was \$17,369 and \$14,920 for the nine months ended January 31, 2007 and for the year ended April 30, 2006, respectively, and \$32,289 for the period from inception of the development stage (July 1, 2004) to January 31, 2007. Interest expense incurred by the Company to unrelated third parties was \$145,341 and \$63,697 for the nine months ended January 31, 2007 and for the year ended April 30, 2006 respectively, and \$209,038 for the period from inception of the development stage (July 1, 2004) to January 31, 2007.

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 OPERATING FACILITIES**

The Company maintained offices in Santa Fe Springs, California under a sublease agreement dated August 1, 2004, whereby it was required to make monthly payments of \$3,900 to a third party landlord under a lease which was to expire in August 31, 2006, on behalf of American Music Corporation, Inc. ( AMC ), an entity formerly owned by David Michery. The landlord agreed to terminate the lease in April 2005 and the lease was settled by the Company for a final payment of \$12,592, which amount was charged to rent expense by the Company.

The Company entered into a new lease for office space located in West Hollywood, California, which commenced November 2005 and will expire on October 31, 2007. The lease agreement requires monthly payments of \$1,685. Future minimum lease payments are as follows:

January 31, 2008	\$ 15,165
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Rent expense incurred by the Company was \$15,981 and \$0 respectively, respectively for the nine months ended January 31, 2007 and 2006, respectively, and \$10,106 for the year ended April 30, 2006, respectively, and \$56,439 for the period from inception of the development stage (July 1, 2004) to January 31, 2007.

**NOTE 7 RELATED PARTY TRANSACTIONS**

(A)

**CONTRIBUTED INTANGIBLE ASSETS AND EQUITY CAPITALIZATION OF AMERICAN SOUTHWEST PRIOR TO THE MARCH 13, 2006 MERGER TRANSACTION**

During 2004, American Southwest issued 470 shares and 3,746 shares of its \$.001 par value common stock to Out of Control Records, Inc. and Celestial Breakaway Records ( Celestial ) in exchange for Music Catalogs valued at the

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actual cost paid by those entities to obtain the underlying contracts and Masters in the Catalogs of \$470,000 and \$3,746,000, respectively. Out of Control Records, Inc. and Celestial are owned and controlled by David Michery. In addition, the American Southwest issued 76 shares of its \$.001 par value common stock to David Michery in exchange for furniture and fixtures, and equipment valued at \$76,737. David Michery also paid \$2,000 for 2 shares of \$.001 par value common stock.

A settlement by the Company with Vestcom, Ltd involving assets transferred to Celestial that included the Music Catalogues received by the Company in exchange for its shares in the preceding paragraph is described in detail in (B) below.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)**

**(B)**

**WRITE-OFF OF DEFERRED TRANSACTION COSTS IN CONNECTION WITH TERMINATION OF UNSUCCESSFUL PRE-EXISTING MERGER AGREEMENT BETWEEN GL ENERGY AND AMERICAN SOUTHWEST**

On March 10, 2006, GL Energy's board of directors approved the termination of an Agreement and Plan of Reorganization dated as of October 13, 2004 (the Merger Agreement). Pursuant to the Merger Agreement, all of American Southwest's outstanding shares were to be converted into shares of GL Energy's capital stock, with American Southwest being the surviving corporation. Although the Merger Agreement was executed, certain closing conditions were never satisfied, including the successful 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 the Company deemed it in the best interest of GL Energy and its stockholders to terminate the Merger Agreement and to enter into the transaction described below.

During the year ended April 30, 2005 American Southwest incurred \$183,900 of deferred transaction costs in connection with the transaction. Below is a summary of the \$183,900 of deferred transaction costs:

Facilitation fee incurred to Donald Byers	\$ 150,000
Legal and other professional fees	26,780
Transfer agent fees	5,878
Other	1,242
	\$ 183,900

As a result of the March 10, 2006 GL Energy Board resolution, these costs were written off to expense during the year ended April 30, 2006, of which \$150,000 represents and is classified as related party consulting fees and services in the consolidated financial statements. The other items are included in general and administrative expenses in those statements.

(C)

**RELATED PARTY CONSULTING FEES AND SERVICES**

The Company has also incurred related party consulting fees and services of \$32,000 during the year ended April 30, 2006 to Robert Guillerman, former President of American Southwest.

The Company has also incurred related party consulting fees and services of \$99,295 during the year ended April 30, 2006 to David Michery, CEO of American Southwest.

The Company has also incurred related party consulting fees and services of \$42,500 during the year ended April 30, 2006 to Marcus Sanders, former COO of American Southwest.

The Company has incurred related party consulting fees and services of \$0 and \$5,000 during the six months ended October 31, 2006 and 2005, respectively, to Kent Puckett, CFO of American Southwest.

The Company has also incurred related party consulting fees and services of \$25,000 during the year ended April 30, 2006 to Kent Puckett, CFO of American Southwest.

The Company has incurred related party consulting fees and services of \$71,872 and \$84,295 during the nine months ended January 31, 2007 and 2006, respectively, to David Michery, CEO of American Southwest.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)**

(C)

**RELATED PARTY CONSULTING FEES AND SERVICES (CONTINUED)**

The Company has incurred related party consulting fees and services of \$0 and \$15,000 during the nine months ended January 31, 2007 and 2006, respectively, to Kent Puckett, CFO of American Southwest.

The Company has incurred related party consulting fees and services of \$0 and \$30,000 during the nine months ended January 31, 2007 and 2006, respectively, to Marcus Sanders, former COO of American Southwest.

The Company has also incurred related party consulting fees and services of \$26,500 and \$0 during the nine months ended January 31, 2007 and 2006 to Robert Guillerman, former President of American Southwest.

The Company has also incurred related party consulting fees and services of \$60,000 and \$0 during the nine months ended January 31, 2007 and 2006 to Chris Lotito, a minority shareholder (See Note 5 for a note payable also owed to him) Chris Lotito was issued 2,000,000 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$60,000 related to this issuance, based on the trading price of Company shares on the issuance date.

The Company has also incurred related party consulting fees and services of \$85,000 during the six months ended October 31, 2006 to Brian Gonzales. He was issued 2,000,000 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$85,000 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended October 31, 2006.

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The Company has also incurred related party consulting fees and services of \$505,000 during the three months ended January 31, 2007 to Brian Gonzales. He was issued 500,000 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$505,000 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007, or an aggregate of \$585,000 for the nine months ended January 31, 2007.

The Company has also incurred related party consulting fees and services of \$113,250 during the three months ended January 31, 2007 to Bob Munro. He was issued 75,000 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$113,250 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

The Company has also incurred related party consulting fees and services of \$264,250 during the three months ended January 31, 2007 to Don Byers. He was issued 175,000 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$264,250 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

The Company has also incurred related party consulting fees and services of \$347,300 during the three months ended January 31, 2007 to Don Byers. He was issued 230,000 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$347,300 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)**

**(C)**

**RELATED PARTY CONSULTING FEES AND SERVICES (CONTINUED)**

The Company has also incurred related party consulting fees and services of \$44,046 during the three months ended January 31, 2007 to Don Byers. He was issued 42,352 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$44,046 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

Accordingly, related party consulting fees and services totaled \$1,517,218 and \$145,795, respectively, during the nine months ended January 31, 2007 and 2006, respectively. In addition, related party consulting fees and services totaled \$348,975 for the year ended April 30, 2006, and \$1,866,193 for the period from inception of the development stage (July 1, 2004) to January 31, 2007. Related party consulting fees and services since inception of \$1,866,193 includes the \$150,000 incurred to Donald Byers described in (B) above.

**(D)**

**LOSS INCURRED ON LEGAL SETTLEMENT ON BEHALF OF ENTITY FORMERLY OWNED BY SIGNIFICANT COMPANY STOCKHOLDER**

In May 2005, Vestcom, Ltd. filed suit against American Southwest and its officers. The lawsuit arose from a loan made by Vestcom on or about July 3, 2003 in the amount of \$500,000 to American Music Corporation, Inc. (AMC). Vestcom alleged that AMC fraudulently transferred its assets which principally included the Music Catalogue (Subject Assets) to Celestial, which was owned and controlled by the Company's Chief Executive Officer, David Michery. American Southwest contended that none of its assets previously belonged to AMC.



Vestcom, Ltd. was seeking not less than \$1.2 million from all the defendants, including American Southwest, to be awarded ownership of all subject assets, punitive damages, and other remuneration.

On July 12, 2006 American Southwest reached a settlement with Vestcom whereby American Southwest agreed to pay Vestcom as follow: \$500,000, which represents the principal amount of the above loan made by Vestcom on or about July 3, 2003, plus interest thereon at the rate of 9.5% from July 3, 2003 through to the closing date of the settlement. The closing date of the settlement was expected to be no later than September 15, 2006. In addition, American Southwest agreed to pay to Vestcom \$360,000 as a supplemental damages payment and \$250,000 for legal fees and expenses incurred by Vestcom. At January 31, 2007, the total amount reflected as liability for the legal settlement in the Balance Sheet is \$1,280,208, which includes accrued interest to that date. A commensurate loss has been reflected in the Company s consolidated statement of operations for the period from inception of the development stage (July 1, 2004) to January 31, 2007, since the Company is absorbing the loss on behalf of the entity formerly owned by David Michery.

Assuming the settlement closing had taken place as planned American Southwest was to issue a promissory note to Vestcom which would bear interest at 9.5%. The note was to be payable as follows: \$150,000 payable at the closing date, which was to be applied to the final payments of interest on the note, \$250,000 payable on or before January 1, 2007, and the balance of \$1,102,772 payable in 8 equal installments paid quarterly in the amount of \$137,847.

To date, the initial cash payment of \$150,000 due to Vestcom at a closing and the \$250,000 payable on January 1, 2007, as contemplated under the current terms of the settlement, has not been made. However, Company management is still in the process of arranging payment through alternate means, and to date Vestcom has apparently not seen good cause to act unfavorably under an Order of Dismissal granted on December 1, 2006 in the United States District Court Central District of California.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 7 RELATED PARTY TRANSACTIONS (CONTINUED)**

**(D)**

**LOSS INCURRED ON LEGAL SETTLEMENT ON BEHALF OF ENTITY FORMERLY OWNED BY SIGNIFICANT COMPANY STOCKHOLDER (CONTINUED)**

The note was also to be convertible in whole or in part at any time into American Southwest's common stock at 90% of the average bid price for the 5 days immediately prior to conversion. American Southwest was also to secure its obligation with a lien on all of its assets, which apparently would be junior in position to the obligation to Pegasus described in Note 5 above. David Michery had agreed to personally guarantee this settlement should American Southwest breach any of its obligations.

The company's ability to exploit the Music Catalogue received from Celestial is dependent on a rescheduled Settlement closing taking place and the Company's meeting a new schedule of payments as due, in particular the \$150,000 or a re-determined amount due at closing and the \$250,000 originally due in January 1, 2007 (or a re-determined amount) at a similar interval after the closing date, unless the entire obligation is successfully refinanced.

**NOTE 8 STOCK INCENTIVE PLAN**

In 2004, the Board of Directors of GL Energy adopted a 2004 Stock Incentive Plan (the plan) under which 35,000,000 shares of GL Energy's common stock have been reserved for issuance to employees, officers, directors and consultants whose past, present and/or potential contributions to GL Energy have been, or will be important to the success of GL Energy.

Options granted under the Plan may be either incentive stock options or nonqualified stock options. Incentive stock options (ISO) may be granted only to GL Energy employees (including officers and directors who are also employees). Nonqualified stock options (NSO) may be granted to GL Energy employees and consultants. Options under the Plan may be granted for periods of up to ten years and at an exercise price equal to the estimated fair value

of the shares on the date of grant as determined by the Board of Directors, provided, however, that the exercise price of an ISO and NSO granted to a 10% shareholder shall not be less than 110% of the estimated fair value of the shares on the date of grant. To date, options granted generally are exercisable immediately as of the effective date of the option agreement.

During 2004, 3,000,000 one year options were granted to two consultants. The exercise price was \$.01 and all 3,000,000 vested immediately. The options were exercised prior to the effective date of the merger and reflected in the pre-merged entities financial statements. No options were granted during 2007 or 2006 and there are no options outstanding at January 31, 2007.

#### **NOTE 9 EQUITY PERFORMANCE PLAN**

In November 2006, the Board of Directors of American Southwest adopted a 2006 Equity Compensation Plan under which 10,000,000 shares of the American Southwest's common stock have been reserved for issuance to employees, officers, directors and consultants whose past, present and/or potential contributions to the American Southwest have been, or will be important to the success of the Company. As of January 31, 2007, 1,062,352 common shares have been issued under this plan (See Note 7 (C) and Note 12 for details of the individual issuances).

In February 2004, the Board of Directors of GL Energy adopted a 2004 Equity Performance Plan under which 10,000,000 shares of GL Energy's common stock have been reserved for issuance to employees, officers, directors and consultants whose past, present and/or potential contributions to GL Energy have been, or will be important to the success of GL Energy. As of January 31, 2007, 6,000,000 shares have been issued under the plan (See Note 12 for details of the individual issuances).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 AGREEMENTS WITH UNIVERSAL RECORDS**

On January 25, 2006, American Southwest 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 American Southwest's music products, including compact discs, cassettes, and digital versatile discs to consumers mainly through retailers and wholesalers in the United States and Canada. During the term of the Domestic Distribution Agreement, Universal will be American Southwest's exclusive manufacturer and distributor, through every distribution channel of recorded music in the United States and Canada. Universal will also exclusively handle all of American Southwest's 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 American Southwest's net billings. After the end of the calendar month, where American Southwest's cumulative net billings exceed \$8,000,000, Universal's distribution fee will be twenty two and one half percent (22.5%) of American Southwest's net billings. After the end of the calendar month, in which American Southwest's cumulative net billings exceeds \$15,000,000, Universal's distribution fee will be twenty percent (20%) of American Southwest's net billings. According to the Domestic Distribution Agreement, net billings means the cumulative wholesale price for sale of American Southwest's 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 American Southwest's 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 American Southwest's net licensing billings. According to the Domestic Distribution Agreement, net licensing billings mean royalties or flat payments received by Universal, on American Southwest's behalf, attributed to sales, other than sales through normal retail channels.

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.

On January 25, 2006, American Southwest entered into another agreement with Universal (Upstream Agreement ) pursuant to which American Southwest granted Universal the right to enter into exclusive recording services contracts with recording artists that have recording contracts with American Southwest, and whose performances are featured on albums distributed by Universal, on American Southwest's behalf, that achieve sales in the United States equal to or in excess of 25,000 units.

On January 25, 2006, American Southwest 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.

**AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

**(FORMERLY KNOWN AS GL ENERGY AND EXPLORATION, INC.)**

**(A DEVELOPMENT STAGE COMPANY)**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 CHANGE IN NAME FROM GL ENERGY & EXPLORATION, INC. TO AMERICAN SOUTHWEST MUSIC DISTRIBUTION, INC.**

The Board of Directors approved an amendment to the certificate of incorporation (the Charter Amendment ) to: (i) change the name of the Company from GL Energy & Exploration, Inc. to American Southwest Music Distribution, Inc. and (ii) effectuate a reverse stock split of the Company's common stock by changing and reclassifying each seventy four (74) shares of 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 ). The Charter Amendment was filed with the Delaware Secretary of State on August 17, 2006. NADAQ effectuated the name change and reverse split on Thursday August 24, 2006. No information has been adjusted to give effect to the Reverse Split.

Effective August 24, 2006 the Company is now traded on the OTC Bulletin board under the symbol ASWD.

**NOTE 12 - EQUITY TRANSACTIONS**

**Stock Issued for Services**

On June 27, 2006, Bryan T. Gonzales was issued 2,000,000 shares of the Company's \$.001 common stock under the Company's S-8 registration statement. The Company recorded a non-cash expense of \$60,000 related to this issuance, based on the trading price of Company shares on the issuance date.

On June 15, 2006, Evergreen Marketing, Inc. was issued 2,000,000 shares of the Company's \$.001 common stock under the Company's S-8 registration statement. The Company recorded a non-cash expense of \$60,000 related to this issuance, based on the trading price of Company shares on the issuance date.

On July 17, 2006, Chris Lotito, a minority shareholder, was issued 2,000,000 shares of the Company's \$.001 common stock, 1,500,000 of which were issued under the Company's S-8 registration statement and 500,000 of which are

subject to Rule 144. The Company recorded a non-cash expense of \$60,000 related to this issuance, based on the trading price of Company shares on the issuance date.

The Company incurred related party consulting fees and services of \$505,000 during the three months ended January 31, 2007 to Brian Gonzales. He was issued 500,000 shares of the Company's \$.001 common stock under the Company's S-8 registration statement. The Company recorded a non-cash expense of \$505,000 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007, or an aggregate of \$585,000 for the nine months ended January 31, 2007.

The Company incurred related party consulting fees and services of \$460,550 during the three months ended January 31, 2007 to Bob Munro. He was issued 305,000 shares of the Company's \$.001 common stock under the Company's S-8 registration statement. The Company recorded a non-cash expense of \$460,550 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

The Company incurred related party consulting fees and services of \$264,250 during the three months ended January 31, 2007 to Don Byers. He was issued 175,000 shares of the Company's \$.001 common stock under the Company's S-8 registration statement. The Company recorded a non-cash expense of \$264,250 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - EQUITY TRANSACTIONS (CONTINUED)**

**Stock Issued for Services (Continued)**

The Company incurred related party consulting fees and services of \$44,046 during the three months ended January 31, 2007 to Don Byers. He was issued 42,352 shares of the Company's \$.001 common stock subject to Rule 144. The Company recorded a non-cash expense of \$44,046 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

The Company incurred legal fees of \$60,400 during the three months ended January 31, 2007 to Spectrum Law Group. They were issued 40,000 shares of the Company's \$.001 common stock under the Company's S-8 registration statement. The Company recorded a non-cash expense of \$60,400 related to this issuance, based on the trading price of Company shares on the issuance date during the quarter ended January 31, 2007.

**Debt Plus Accrued Interest Converted Into Stock**

As discussed in Note 5, during the quarter ended January 31, 2007 the Company converted an aggregate of \$143,281 of loans plus related aggregate accrued interest of \$10,492 due to Donald Byers into 199,739 shares of the Company's \$.001 common stock valued at a total of \$191,749 based on the trading price of Company shares on the issuance date. A loss of debt conversion of \$37,976 was recorded in the statement of operations as part of the transaction.

As discussed in Note 5, during the quarter ended January 31, 2007 the Company converted \$10,800 of loans plus accrued interest of \$3,798 due to Northern Business Consultants, Ltd. into 16,811 shares of the Company's \$.001 common stock valued at a total of \$16,139 based on the trading price of Company shares on the issuance date. A loss of debt conversion of \$1,541 was recorded in the statement of operations as part of the transaction.



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During the quarter ended January 31, 2007 the Company converted \$43,952 of loans plus accrued interest of \$12,843 due to Three Sisters Investment Corporation into 65,184 shares of the Company's \$.001 common stock valued at a total of \$62,577 based on the trading price of Company shares on the issuance date. A loss of debt conversion of \$5,782 was recorded in the statement of operations as part of the transaction.

As discussed in Note 5, during the quarter ended January 31, 2007 the Company converted \$24,409 of loans plus accrued interest of \$2,227 due to Wellstar International into 28,717 shares of the Company's \$.001 common stock valued at a total of \$27,569 based on the trading price of Company shares on the issuance date. A loss of debt conversion of \$933 was recorded in the statement of operations as part of the transaction.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 - EQUITY TRANSACTIONS (CONTINUED)**

**Debt Plus Accrued Interest Converted Into Stock (Continued)**

Accordingly, during the quarter ended January 31, 2007, the Company converted an aggregate of \$222,442 of loans plus related aggregate of \$29,359 of accrued interest for aggregate of 310,451 of the Company's \$.001 common stock valued at \$298,032, resulting in a loss on debt conversion of \$46,232, of which Don Byers and entities owned by him accounted for \$40,450.

**Reverse Stock Split**

During the quarter ended October 31, 2006, the Company effectuated a 1 for 74 reverse split of its common stock.

**Conversion of Preferred Shares of Stock Issued in Merger**

During the quarter ended October 31, 2006, David Michery and Kent Puckett, both officers and shareholders of the Company converted a total of 23,980 shares of preferred convertible stock that they received in the merger into 8,101,351 shares of the Company's common stock on a post reverse split basis.



## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited condensed financial statements and related notes included in this report. This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The statements contained in this report that are not historic in nature, particularly those that utilize terminology such as may, will, should, expects, anticipates, es believes, or plans or comparable terminology are forward-looking statements based on current expectations and assumptions.

Various risks and uncertainties could cause actual results to differ materially from those expressed in forward-looking statements. All forward-looking statements in this document are based on information currently available to us as of the date of this report, and we assume no obligation to update any forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results to differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

### General

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.

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.

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

### **Plan of Operation**

During the next twelve months of operations, we plan to carry out our plan of operation as described herein. Our management is currently seeking to execute several recording agreements with various production companies, labels and artists. There is no assurance as to when or whether we will locate suitable production companies, labels and artist or suitable master recordings. Also, there are not assurances that we will have sufficient capital to secure the rights under any Recording Agreement negotiated.

On January 25, 2006, we entered into an Exclusive Manufacturing and Distribution Agreement, Upstream Agreement and Exclusive Foreign License Agreement with Universal Records, a division of UMG Recordings, Inc. These agreements are more fully described in Note 10 to the financial statements included herein.

Our management plans to select masters from its catalog for commercial release in 2006, and seeking third-party licensing agreements to be included in the proposed compilation Albums derived from its catalog.

In the second fiscal quarter of 2006, we began marketing the release of new Albums we intend to commercially release in the fourth fiscal quarter of 2006. During the remainder of fiscal 2006, we plan to release nine (9) separate Albums.

On October 10, 2006, we entered into a Profit Participation Agreement with Screw U Records, LLC. The agreement calls for the exclusive assignment to the Company of recording rights of certain named artists. The initial term of the agreement is for nine full months from the time of the commercial release of the first album produced by any of the named artists. The Company also has the option to request 6 additional recordings subject to certain restrictions. The agreement calls for the Company to pay certain advances for the production of the albums. For the first album produced, the Company will pay a royalty to Screw U Records of 50% of net receipts to the Company. Net receipts are defined as gross receipts less all recoupable costs and advances. The royalty payment percentages for additional albums produced under the option terms varies from 25% for the first option album to 10% for the remaining options.

In the next 12 months, we plan to hire up 5 additional employees.

### **Significant Accounting Policies**

#### **Financial Statement Presentation**

The financial statements presented herein reflect the consolidated financial statements of the Company and American Southwest after giving effect to the reverse merger of the two companies on a historical basis.

#### **Music catalog**

##### **Cost Basis**

The cost basis in the music catalog is recorded at cost. Amortization will be computed using the straight-line method over periods ranging from 1 to 5 years. Amortization will be recorded once revenues commence.

Rate of Obsolescence

A number of the Music Catalogues date from contracts entered into from 1997 - 1998 that provide for a limited number of album or single release recordings and options for extension thereon. Accordingly, there is a risk that the Music Catalogues owned by the Company are subject to competition from later releases by the artists through other entities besides the Company, as well as the risk of the passage of time on the salability on the masters owned by the Company.

Impairment of Long-Lived and Other Intangible Assets

The Company reviews the carrying value of both its long-lived and other intangible assets annually, or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. At January 31, 2007 the Company's evaluation determined that no provision for impairment of either its other intangible assets (its Music Library ) or its fixed assets was required at that date.

Consideration of Other Comprehensive Income Items

SFAS 130 Reporting Comprehensive Income requires companies to present comprehensive income (consisting primarily of net income plus other direct equity changes and credits) and its components as part of the basic financial statements. The Company's financial statements do not contain any changes in equity that are required to be reported separately in comprehensive income.

### Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment, which establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. SFAS No. 123 (R) became effective for the interim period beginning July 1, 2005. The Company does not anticipate that the adoption of SFAS No. 123(R) will have a significant impact on the Company's overall results of operations or financial position.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 20, Accounting for Nonmonetary Transactions. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement shall be applied prospectively and is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The Company does not anticipate that the adoption of SFAS No. 153 will have a significant impact on the Company's overall results of operations or financial position.

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections, that applies to all voluntary changes in accounting principle. This Statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. SFAS 154 will be effective for the Company for fiscal year ended December 31, 2007. The Company does not anticipate that the adoption of SFAS No. 154 will have an impact on the Company's overall results of operations or financial position.

In September 2006, the FASB issued SFAS #157, Fair Value Measurements, which replaces and amends various other pronouncements. This statement establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies to other pronouncements that fair value is the relevant measurement attribute. This pronouncement is effective for financial statements for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Early adoption is



allowed. Management is in the process of evaluating the effect this pronouncement will have of the financial statements of the Company.

In September 2006, the FASB issued SFAS #158, Employers Accounting for Defined Benefit Pension and Other Post-retirement Plans. This pronouncement requires an employer to recognize the over funded or under funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status through comprehensive income. Management does not expect this pronouncement to have a material effect on the Company's results from operations or financial position because the Company does not have a defined benefit plan.

### **Financial Condition and Changes in Financial Condition**

We had no revenues for the nine month period ended January 31, 2007 or since its inception.

We incurred \$1,553,164 and \$2,097,035 in operating expenses for the three and nine month periods ended January 31, 2007 as compared to \$155,550 and \$317,264 for the comparable periods in 2006. We also incurred \$99,918 and \$208,933 in other costs and expenses for the three and nine month periods ended January 31, 2007 as compared to \$18,445 and \$41,191 for the comparable periods in 2006.

The operating expenses for the nine month periods ended January 31, 2007 and 2006 include general and administrative expenses and consulting fees and services. Included in these expenses were \$246,518 in legal and accounting fees for the nine month period ended January 31, 2007 as compared to \$95,000 for the prior year nine month period. These fees were related to negotiating Recording Agreements, litigation and SEC compliance requirements. Payroll related expenses were \$110,187 and \$129,295 for the nine periods ended January 31, 2007 and 2006, respectively. Professional fees and consulting services totaled \$1,532,420 for the nine months ended January 31, 2007 as compared to \$220,795 for the prior year period. These fees were incurred primarily for business consulting and recording related fees and were primarily settled with the issuance of common stock in lieu of cash. The remaining expenses for both periods were incurred for general operating activities.

We incurred net losses of \$1,653,082 and \$2,305,968 for the three and nine month periods ended January 31, 2007, respectively, as compared to \$173,995 and \$358,455 for the comparable periods in 2006.

### **Liquidity and Capital Resources:**

We remain a development stage company. Since our inception, we have had minimum working capital to fund our operations. In order to pay the expenses of its operations, we have relied on third-party loans and loans from shareholders and the issuance of common stock for services provided. As a result, we have incurred debt in the total amount of \$1,483,500 to pay our expenses. Our working capital deficit at January 31, 2007 was \$3,096,782 and at April 30, 2006 it was \$2,300,702. We had cash of \$0 as of January 31, 2007 and April 30, 2006.

We used \$369,531 of net cash in operating activities for the nine months ended January 31, 2007. Net cash flows used in investing activities was \$301,748 for the nine months ended January 31, 2007. Net cash flows provided by financing activities were \$671,279 for the nine months ended January 31, 2007, primarily in the form of notes issued.

In addition, we were in default on loans received from General Leasing as noted in Note 5 to the financial statements.

We have a working capital deficit and no operating cash with which to fund our future operations. We must obtain adequate funding in order to fulfill our obligations under any recording agreement that we intend to execute, and adequate funding to market and advertise any of music products that we intend to release. If we do not receive adequate funding, its management must either discontinue or substantially scale back our planned operations.

We intend to seek either debt or equity capital or both. As of the date of this report, we do not have commitments for funding or any other agreements that will provide us with adequate working capital to conduct its full operating plan for the next twelve months. We cannot give any assurance that we will locate any funding or enter into any agreements that will provide the required operating capital to fund our planned business operations. In addition, we may consider receiving advances against future sales from Universal (as customary in the music industry) or to agree to sell rights to Master recordings, copyrights, or rights to any artist under a Recording Agreement or in our catalog. In addition, we may consider strategic alliances, mergers or acquisition as a means of pursuing our business plan or otherwise funding our business plan.

Our existing capital is currently not sufficient to enable us to meet our cash needs in conjunction with complying with our reporting obligations under Securities Exchange Act of 1934, as amended, for a period of twelve months following the date hereof.

Regardless of whether our cash assets are adequate to meet its operational needs, we will seek to compensate its management, consultants, employees and other service providers by issuing its shares of stock, or options to buy shares of its common stock in lieu of cash. For information as to our policy in regard to payment for services, see "Other Compensation Arrangements." contained in our Annual Report on Form 10KSB.

We anticipate obtaining funding from the sale of our common stock and from additional loans.

### **ITEM 3 CONTROLS AND PROCEDURES**

(a)

Evaluation of Disclosure Controls and Procedures. We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management and our board of directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of January 31, 2007. This evaluation was carried out under the supervision and with the participation of our management, including our chief executive officer and chief financial officer. Based upon the evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were of limited effectiveness at the reasonable assurance level at such date.

(b)

Changes in Internal Controls. There was no change in the Company's internal controls over financial reporting during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to affect the Company's internal control over financial reporting.

### **PART II: OTHER INFORMATION**

**ITEM 1 LEGAL PROCEEDINGS**

In May 2005, Vestcom, Ltd. filed suit against American Southwest and its officers. The lawsuit arose from a loan made by Vestcom on or about July 3, 2003 in the amount of \$500,000 to American Music Corporation, Inc. ( AMC ). Vestcom alleged that AMC fraudulently transferred its assets which principally included the Music Catalogue ( Subject Assets ) to Celestial, which was owned and controlled by the Company s Chief Executive Officer, David Michery. American Southwest contended that none of its assets previously belonged to AMC.

Vestcom, Ltd. was seeking not less than \$1.2 million from all the defendants, including American Southwest, to be awarded ownership of all subject assets, punitive damages, and other remuneration.

On July 12, 2006 American Southwest reached a settlement with Vestcom whereby American Southwest agreed to pay Vestcom as follow: \$500,000, which represents the principal amount of the above loan made by Vestcom on or about July 3, 2003, plus interest thereon at the rate of 9.5% from July 3, 2003 through to the closing date of the settlement. The closing date of the settlement was expected to be no later than September 15, 2006. In addition, American Southwest agreed to pay to Vestcom \$360,000 as a supplemental damages payment and \$250,000 for legal fees and expenses incurred by Vestcom. At January 31, 2007, the total amount reflected as liability for the legal settlement in the Balance Sheet is \$1,280,208, which includes accrued interest to that date. A commensurate loss has been reflected in the Company s consolidated statement of operations for the period from inception of the development stage (July 1, 2004) to January 31, 2007, since the Company is absorbing the loss on behalf of the entity formerly owned by David Michery.

Assuming the settlement closing had taken place as planned American Southwest was to issue a promissory note to Vestcom which would bear interest at 9.5%. The note was to be payable as follows: \$150,000 payable at the closing date, which was to be applied to the final payments of interest on the note, \$250,000 payable on or before January 1, 2007, and the balance of \$1,102,772 payable in 8 equal installments paid quarterly in the amount of \$137,847.

To date, the initial cash payment of \$150,000 due to Vestcom at a closing and the \$250,000 payable on January 1, 2007, as contemplated under the current terms of the settlement, has not been made. However, Company management is still in the process of arranging payment through alternate means, and to date Vestcom has apparently not seen good cause to act unfavorably under an Order of Dismissal granted on December 1, 2006 in the United States District Court Central District of California.

The note was also to be convertible in whole or in part at any time into American Southwest's common stock at 90% of the average bid price for the 5 days immediately prior to conversion. American Southwest was also to secure its obligation with a lien on all of its assets, which apparently would be junior in position to the obligation to Pegasus described in Note 5 above. David Michery had agreed to personally guarantee this settlement should American Southwest breach any of its obligations.

The company's ability to exploit the Music Catalogue received from Celestial is dependent on a rescheduled Settlement closing taking place and the Company's meeting a new schedule of payments as due, in particular the \$150,000 or a re-determined amount due at closing and the \$250,000 originally due in January 1, 2007 (or a re-determined amount) at a similar interval after the closing date, unless the entire obligation is successfully refinanced.

## **ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES**

None.

## **ITEM 3 DEFAULT UPON SENIOR SECURITIES**

None.

## **ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5 OTHER INFORMATION**

None.

**ITEM 6 EXHIBITS**

**Item**

<b>No.</b>	<b>Description</b>	<b>Method of Filing</b>
31.1	Certification of David Michery pursuant to Rule 13a-14(a)	Filed electronically herewith.
31.2	Certification of Kent Puckett pursuant to Rule 13a-14(a)	Filed electronically herewith.
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. § 1350 adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed electronically herewith.
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. § 1350 adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002	Filed electronically herewith.

**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.

**AMERICAN SOUTHWEST MUSIC  
DISTRIBUTION, INC.**

March 22, 2007

/s/ David Michery  
David Michery.  
President and Chief Executive Officer  
(Principal Executive Officer)

March 22, 2007

/s/ Kent Puckett  
Kent Puckett  
  
Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)