LQ CORP INC
Form 10-Q
August 13, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from ______ to ______.

Commission File Number 000-25977

L Q CORPORATION, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of** **incorporation or organization)**	**77-0421089** **(I.R.S. Employer** **Identification No.)**
888 Seventh Ave., 17th Floor, New York, NY **(Address of principal executive offices)**	**10019** **(Zip Code)**

(212) 974-5730

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) had been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 12, 2004, there were 3,243,979 shares of registrant s Common Stock outstanding.

L Q CORPORATION, INC.

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ITEM 1. FINANCIAL STATEMENTS

L Q CORPORATION, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands; unaudited)

	June 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 6,601	$ 9,077
Accounts receivable, net		28
Other current assets	272	164
Total current assets	$ 6,873	$ 9,269
Liabilities and stockholders equity		
Current liabilities:		
Accrued liabilities	$ 27	$ 1,935
Total current liabilities	27	1,935
Stockholders equity:		
Common stock, $0.001 par value; 30,000,000 shares authorized; 3,243,979 shares issued and outstanding	23	23
Additional paid-in capital	146,053	146,053
Accumulated other comprehensive loss (net)	(80)	(79)
Accumulated deficit	(139,150)	(138,663)
Total stockholders equity	6,846	7,334
Total liabilities and stockholders equity	$ 6,873	$ 9,269

See accompanying notes to condensed consolidated financial statements.

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L Q CORPORATION, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts; unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	**2003**	**2004**	**2003**
Net revenues:				
License	$	$	$	$ 4
Services				39
Total net revenues				43
Cost of net revenues:				
License				5
Services				2
Non-cash cost of revenue				0
Total cost of net revenues				7
Gross profit (loss)				36
Operating expenses:				
Sales and marketing		5		271
Research and development		87		165
General and administrative	388	1,248	567	4,257
Restructuring		3,569		4,411
Total operating expenses	388	4,909	567	9,104
Loss from operations	(388)	(4,909)	(567)	(9,068)
Other income (expense), net	35	15	80	118
Gain on sale of digital music fulfillment business				2,868
Net loss	$ (353)	$ (4,894)	$ (487)	$ (6,082)
Net loss per share:				
Basic and diluted	$ (0.11)	$ (1.51)	$ (0.15)	$ (1.88)
Weighted average shares	3,243	3,243	3,243	3,242

See accompanying notes to condensed consolidated financial statements.

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NOTES TO CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands; unaudited)

	Six Months Ended June 30,	
	2004	**2003**
Cash flows from operating activities:		
Net loss	$ (487)	$ (6,082)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization		222
Gain on sale of digital music fulfillment business		(2,868)
Changes in assets and liabilities:		
Accounts receivable	28	49
Other current assets	(108)	929
Accounts payable		(682)
Accrued liabilities	(1,908)	1,643
Deferred revenue		(39)
Net cash used in operating activities	(2,475)	(6,828)
Cash flows from investing activities:		
Proceeds from sale of digital music fulfillment business and related assets		3,200
Net cash provided by investing activities		3,200
Cash flows from financing activities:		
Cash distribution to stockholders		(57,771)
Proceeds from issuance of common stock, net of repurchases		14
Net cash used in financing activities		(57,757)
Effect of exchange rates on cash and cash equivalents	(1)	8
Net decrease in cash and cash equivalents	(2,476)	(61,377)
Cash and cash equivalents at beginning of period	9,077	73,985
Cash and cash equivalents at end of period	$ 6,601	$ 12,608

See accompanying notes to condensed consolidated financial statements

L Q CORPORATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Company

L Q Corporation, Inc. was incorporated in California as Liquid Audio, Inc. in January 1996 and reincorporated in Delaware in April 1999. In July 1999, we completed our initial public offering of common stock. Our Board of Directors (the Board) received stockholder approval on July 30, 2003 to change our name to L Q Corporation, Inc. Our name was formally changed on January 7, 2004. Our principal executive offices are located at 888 Seventh Avenue, 17th Floor, New York, NY 10019, and our telephone number is (212) 974-5730.

Through January 2003, we provided an open platform that enabled the digital delivery of media over the Internet.

Since January 2003, we have not operated any business and have been reviewing alternatives for the use or disposition of our remaining assets while settling our remaining claims and liabilities. We intend to pursue other business opportunities and investments unrelated to the downloading of digital music. Neither our Board nor our stockholders have yet approved any such opportunities. If we are unable to find any suitable business opportunities and/or investments, we may pursue a plan of complete liquidation and dissolution. If a complete liquidation and dissolution is approved, pursuant to Delaware General Corporation Law, we will continue to exist for three years after the dissolution becomes effective or for such longer period as the Delaware Court of Chancery shall direct, for the purpose of prosecuting and defending suits against us and enabling us gradually to close our business, to dispose of our property, to discharge our liabilities and to distribute to our stockholders any remaining assets.

We traded shares of an available-for-sale security in August and September of 2003. Although we liquidated our entire remaining position in this security as of November 12, 2003 and do not intend to make any additional purchases of available-for-sale securities, we may inadvertently have become, or may become in the future, an investment company under the Investment Company Act of 1940 as a result of our lack of an operating business, our significant cash balance as a percentage of our total assets and our recent trading activities. Registration as an investment company would be very expensive, further depleting our cash reserves and would also subject us to restrictions that may be inconsistent with any future business strategy we may decide upon.

We entered into a Settlement Agreement and Mutual Release on February 12, 2004 with BeMusic, Inc. (BeMusic) which finally resolved all matters between BeMusic and us with respect to a lawsuit brought by SightSound, Inc. (SightSound) alleging that certain former customers of ours (which have since merged into BeMusic) infringed certain patents of SightSound. Under the terms of this Agreement, we paid approximately $1,452,000 to BeMusic as settlement expenses and approximately $314,000 in legal fees relating to the SightSound litigation. These payments were in addition to $335,827 previously paid by us for our share of attorney fees incurred in connection with this matter.

At the September 29, 2003 stockholders meeting, our stockholders approved amendments to our Certificate of Incorporation to effect a 1-for-250 reverse stock split, to be followed immediately by a 35-for-1 forward stock split (collectively, the Reverse/Forward Stock Split), as well as a reduction in the number of common shares authorized for issuance from 50,000,000 shares to 30,000,000 shares (the Share Reduction). On June 7, 2004, we filed the amendments necessary to implement the Reverse/Forward Stock Split and the Share Reduction, which took place on July 26, 2004 with an effective date as of June 8, 2004. Per share amounts for all periods presented have been restated to give effect to this Reverse Forward Stock Split. Our common stock currently trades over the counter on The Nasdaq OTC Bulletin Board. Our common stock was traded on The Nasdaq National Market, but was delisted on June 5, 2003. The market price of our common stock increased significantly following the implementation of the Reverse/Forward Stock Split. The market price of our common stock as of August 12, 2004 was $2.14 per share. An investment in an OTC security is speculative and involves a significant degree of risk. Many OTC securities are relatively illiquid, or thinly traded, which can enhance volatility in the share price and make it difficult for investors to buy or sell without dramatically affecting the quoted price or may inhibit the ability of investors to sell a position at a later date. Moreover, if we pursue a plan of complete liquidation and dissolution, we will close our

L Q CORPORATION, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

stock transfer books, discontinue recording transfers of our common stock, and our common stock will no longer be traded on any exchange, and certificates representing our common stock will no longer be assignable or transferable on our books. Accordingly, the proportionate interests of all of our stockholders will be fixed on the basis of their respective stock holdings at the close of business on the date of dissolution, and any distributions made by us after such date will be made solely to the stockholders of record at the close of business on the date of dissolution.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by us and reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim periods presented. The results of operations for the period ended June 30, 2004 are not necessarily indicative of the results to be expected for any subsequent quarter or for the year ending December 31, 2004. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the Securities and Exchange Commission s (SEC) rules and regulations.

These unaudited condensed consolidated interim financial statements and notes included herein should be read in conjunction with our audited consolidated financial statements and notes as included in our Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the SEC on March 30, 2004.

Going concern consideration

The accompanying financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. We incurred losses and negative cash flows from operations for every year since inception. For the six months ended June 30, 2004, we incurred a net loss of approximately $487,000 and negative cash flows from operations of approximately $2,475,000. As of June 30, 2004, we had an accumulated deficit of approximately $139 million. We have not yet settled on an operating plan, and can give no assurance that our existing cash and cash equivalents are sufficient to fund the current operations and satisfy our obligations. We believe these obligations will primarily relate to costs associated with the operation as a public company (legal, accounting, insurance, etc.), as well as the satisfaction of any potential legal judgments or settlements and the expenses associated with any new business activities, which may be undertaken by us. These factors, among others, indicate that we may be unable to continue as a going concern. No adjustment has been made in the accompanying condensed consolidated financial statements to the amounts and classifications of assets and liabilities which could result should we be unable to continue as a going concern. We continue to consider future alternatives, including the possible acquisition of other businesses or the possibility of adopting a plan of liquidation. However, we have not consummated any significant transactions to date and any business prospects remain uncertain. To the extent that our management moves forward on any alternative strategy, such strategy may have an impact on our liquidity.

Principles of consolidation

The financial statements include our accounts and our wholly-owned (inactive) subsidiary. Significant intercompany transactions and balances have been eliminated.

Income Taxes

At December 31, 2003, we had approximately $11.3 million of federal and state net operating loss carry forwards, which may have been lost due to the application of the provisions of Section 382 of the Internal Revenue Code.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

Stock-based compensation

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation, Transition and Disclosure . SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS 148 requires disclosure of the pro forma effect in interim financial statements. The transition and annual disclosure requirements of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure requirements are effective for interim periods ending after December 15, 2002.

We account for stock issued to non-employees in accordance with the provisions of SFAS No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Consistent with the disclosure provisions of SFAS 123 and SFAS 148, our net loss and basic and diluted net loss per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share amounts).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Net loss as reported	$ 353			