QRS MUSIC TECHNOLOGIES INC
Form 10QSB/A
May 21, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

(Mark One)

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

For the quarterly period ended September 30, 2003

o **TRANSITION REPORT UNDER SECTION 13 OR 5(d) OF THE EXCHANGE ACT**

For the transition period from to
Commission file number 0-31955

QRS Music Technologies, Inc.

(Exact name of small business issuer as specified in its charter)

Delaware	**36-3683315**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2011 Seward Avenue, Naples, Florida 34109
(Address of principal executive offices)

(239) 597-5888
(Issuer's telephone number)

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

Check whether issuer (1) Filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý
No o

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 9,258,956

Transitional Small Business Disclosure Format (Check One): Yes o No ý

QRS MUSIC TECHNOLOGIES, INC.

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QRS Music Technologies, Inc.

Consolidated Balance Sheets (Restated)

	September 30, 2003	June 30, 2003
	(Unaudited)	
Assets		
Current assets		
Cash	$ 555,462	$ 966,935
Accounts receivable (net of allowance for doubtful accounts of $73,400, and $73,400 respectively)	731,644	967,009
Inventories	5,551,977	5,055,195
Income taxes refundable	158,184	185,000
Deferred income taxes	469,000	469,000
Prepaid expenses and other current assets	222,999	222,999
	7,689,266	7,866,138
Property, plant and equipment	964,459	992,208
Other assets	81,791	95,019
	$ 8,735,516	$ 8,953,365
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 165,012	$ 165,012
Accounts payable	493,025	472,868
Accrued expenses	745,635	796,723
	1,403,672	1,434,603
Long-term debt	426,262	481,267
Commitments and contingencies		
Stockholders' equity		
Series A preferred stock, voting, $.01 par value, 2,000,000 authorized, 534,925 shares issued and outstanding in 2003 and 2002, liquidation value of $2,342,296 and $2,565,185, respectively.	5,349	5,349
Common stock, voting, $.01 par value, 40,000,000 shares authorized, 9,258,956 shares issued and outstanding, respectively.	92,590	92,590
Additional paid-in capital	5,079,863	5,334,848
Retained earnings	1,727,780	1,604,708
	6,905,582	7,037,495
	$ 8,735,516	$ 8,953,365

See accompanying notes

QRS Music Technologies, Inc.

Consolidated Statements of Income

Three Months Ended September 30, 2003 and 2002

	2003	2002
	(Unaudited)	(Unaudited)
Net sales	$ 3,477,736	$ 2,661,802
Cost of sales	2,515,192	1,865,923
Gross profit	962,544	795,879
Operating expenses		
Selling, general and administrative	672,249	554,200
Research and development	83,969	54,470
	756,218	608,670
Income from operations	206,326	187,209
Interest expense	9,438	9,861
Income before income taxes	196,888	177,348
Income tax expense		
Current	73,816	67,391
Deferred	0	0
	73,816	67,391
Net income	123,072	109,957
Less current period preferred stock dividends in arrears	(32,096)	(32,096)
Income available to common stockholders	$ 90,976	$ 77,861
Earnings per common share		
Basic	$ .01	$ .01
Assuming dilution	$ .01	$ .01
Weighted average number of common shares outstanding		
Basic	9,358,956	9,248,956
Assuming dilution	9,417,113	9,248,956

See accompanying notes

QRS Music Technologies, Inc.

Consolidated Statements of Cash Flows

Three Months Ended September 30, 2003 and 2002

	2003	2002
	(Unaudited)	(Unaudited)
Operating activities		
Net income	$ 123,072	$ 109,957
Depreciation and amortization	30,500	21,500
Provision for bad debt	39,680	0
Changes in		
Accounts receivable	195,685	104,580
Inventories	(496,782)	(645,186)
Income taxes refundable	26,816	(37,609)
Prepaid expenses and other assets	0	(54,962)
Accounts payable	20,157	(147,413)
Accrued expenses	(51,088)	1,984
Other Assets	13,228	0
Net cash (used in) operating activities	(98,732)	(647,149)
Investing activities		
Acquisitions of property and equipment	(2,751)	(20,682)
Repayment of note receivable stockholder	0	552,073
Net cash provided by (used in) investing activities	(2,751)	531,391
Financing activities		
Payment of preferred stock dividends	(254,985)	0
Repayments of long term debt lending institution	(55,005)	(41,253)
Net cash (used in) financing activities	(309,990)	(41,253)
(Decrease) in cash	(411,473)	(157,011)
Cash		
Beginning of period	966,935	1,504,880
End of period	$ 555,462	$ 1,347,869
Supplemental disclosure of cash flow information		
Interest paid	$ 9,438	$ 9,861
Income taxes paid	$ 47,000	$ 105,000

Supplemental disclosure of Noncash Investing Activities:

On December 11, 2002, the Company, through a newly-formed, wholly-owned subsidiary, acquired certain assets of Gulbransen, Inc. As part of the acquisition, the Company is to issue 100,000 shares of its common stock upon the completion of certain documentation. As of September 30, 2003, the common stock was not issued and a liability was recorded in accrued expenses to reflect the fair value, as of December 11, 2002, of the common stock to be issued.

See accompanying notes

QRS Music Technologies, Inc.

Notes to Condensed Financial Statements

(Unaudited)

Note 1 Unaudited Interim Financial Statements

Interim condensed financial statements are prepared pursuant to the requirements for reporting on Form 10-QSB. Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with US generally accepted accounting principles are omitted. For additional disclosures, see Notes to Consolidated Financial Statements contained in QRS Music Technologies, Inc. Annual Report on Form 10-KSB for the year ended June 30, 2003.

In the opinion of management of the Company, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the consolidated financial statements for these interim periods have been included. The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year.

Note 2 Inventories

Inventories at September 30, 2003 and June 30, 2003 consisted of:

	September 30, 2003	June 30, 2003
	(Unaudited)	
Raw materials	$ 4,193,737	$ 3,669,461
Finished goods	1,734,575	1,734,576
	5,928,312	5,404,037
Valuation reserve	(376,335)	(348,842)
	$ 5,551,977	$ 5,055,195

Note 3 Dividends in arrears

Dividends in arrears on the Series A preferred stock amounted to $202,596 at September 30, 2003. In August 2003, the Company's Board of Directors declared and paid dividends totaling $254,985 to holders of the preferred shares.

Note 4 Earnings Per Share

The Company computes basic earnings per share under Financial Accounting Standard (FAS) No. 128, "Earnings per Share." Net earnings less preferred dividends are divided by the weighted average number of common shares outstanding during the year to calculate basic net earnings per common share.

Diluted earnings per common share are calculated to give effect to the potential dilution that could occur if convertible preferred stock, warrants, options or other contracts to issue common stock were exercised and resulted in the issuance of additional common shares.

For the three months ended September 30, 2003 and 2002, 534,925 weighted average common shares from the conversion of convertible preferred stock were not included in the computation of diluted earnings per share because they were antidilutive. For the three months ended September 30, 2002 options for 200,000 common shares were not included in the computation because they were antidilutive, and for the three months ended September 30, 2003 the options for 200,000 common shares were included in the computation of diluted EPS using the treasury stock method.

In 2004, 100,000 common shares issued for the Gulbransen acquisition were considered to be outstanding for the computation of basic and diluted shares, even though such shares have not yet been issued.

Basic and diluted earnings per share calculations are detailed as follows:

	Three Months Ended September 30, 2003		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
Net Income	$ 123,072	9,358,956	$ 0.01
Effect of dilutive securities options		58,157	
	$ 123,072	9,417,113	$ 0.01

Note 5 Note Receivable Shareholder

During the year ended June 30, 2002 the Company advanced $552,073 to its major stockholder. Such advance was evidenced by an unsecured demand note bearing interest at 6% per annum and was repaid during the three months ended September 30, 2002, including $8,281 in interest.

Note 6 Accounting Changes and Recent Accounting Pronouncements

In November 2002, the Financial Accounting Standards Board ("FASB") issued Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS 5, 57 and 107 and Rescission of FIN 34. FIN 45 requires that guarantors recognize a liability for certain types of guarantees equal to the fair value of the guarantee upon its issuance. FIN 45 also requires increased disclosure of guarantees, including product warranty information. The disclosure provisions of FIN 45 are effective for financial statements of interim or annual periods that end after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. Effective January 1, 2003 the Company adopted FIN 45, which did not have a material impact on its financial position or results of operations.

In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF Issue 00-21 provides guidance on how to determine when an arrangement that involves multiple revenue-generating activities or deliverables should be divided into separate units of accounting for revenue recognition purposes, and if this division is required, how the arrangement consideration should be allocated among the separate units of accounting. The guidance in the consensus is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Effective July 1, 2003 the Company adopted EITF Issue 00-21, which did not have a material effect on its financial position, results of operations or cash flows.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure," an amendment to SFAS 123. SFAS 148 amends SFAS 123, "Accounting for Stock-based Compensation" to provide alternative methods of transition to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. SFAS 148 is effective for fiscal years ending after December 15, 2002 with respect to the alternative transition methods permitted and the annual disclosures required. The disclosure provisions for interim financial information is effective for all periods presented in financial reports containing financial statements for interim periods beginning after December 15, 2002. Because the Company currently does not have stock-based compensation plans, SFAS 148 does not have an impact on the Company's financial statements and related disclosures.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51" (FIN 46). FIN 46 addresses consolidation by business enterprises of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a variable interest entity is the party that absorbs a majority of its expected residual returns. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003 and apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. These provisions did not have a material impact on its financial statements.

In April 2003, FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." The changes in SFAS 149 improve financial reporting by requiring that contracts with similar characteristics be accounted for similarly. SFAS 149 is effective, with some exceptions, for contracts entered into or modified after June 30, 2003. Effective July 1, 2003 the Company adopted SFAS 149, which did not have a material impact on its financial position or results of operations because the Company does not use derivative instruments.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). The requirements of this statement apply to issuers' classification and measurement of freestanding financial instruments, including those that comprise more than one option or forward contract. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Effective July 1, 2003 the Company adopted SFAS 150, which did not have a material impact on its results of operations, financial position or consolidated cash flows.

Note 7 Acquisition of Certain Assets of Gulbransen, Inc.

On December 11, 2002, the Company, through a newly-formed, wholly-owned subsidiary, acquired certain assets of Gulbransen, Inc. for $164,177 in cash, 100,000 shares of the Company's common stock and future royalty payments (through November 1, 2032) based on sales volume. The common stock is to be issued upon the completion of certain documentation. As of September 30, 2003, the common stock was not issued and a liability was recorded in accrued expenses to reflect the fair value, as of December 11, 2002, of the common stock to be issued.

The acquisition has been accounted for as a purchase under the provisions of SFAS 141, "Business Combinations". The total purchase price has been allocated to the tangible and intangible assets of the Company based on their respective values. The following provides an allocation of the purchase price:

Purchase price	$	224,177
Less fair value of assets acquired		(164,177)
Goodwill	$	60,000

Note 8 Consulting Agreement

During the period ended December 31, 2002 the Company entered into a twelve-month consulting agreement which provides for the Company to make monthly payments of $10,417 through December 2003 in exchange for consulting services related to further development of several of the Company's product lines.

Note 9 Commitments and Contingencies

The Company is a party to various other claims, legal actions and complaints arising in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind or involve such amounts that unfavorable disposition would not have a material effect on the Company's financial position, results of operation or liquidity.

Note 10 Restatement

In the third quarter of the year ending June 30, 2004, the Company discovered that a default judgment in the amount of approximately $478,000 had been entered against it in the United States Bankruptcy Court, Southern District of Ohio, Western Division on August 20, 2003. The default judgment was granted to Dwight's Piano Co (formerly known as Baldwin Piano & Organ Company and subsidiaries, a former customer of the Company) and was based upon claims that preferential transfers were made to the Company during the 90 day period prior to Baldwin's bankruptcy filing on May 31, 2001. The Company has not completed an evaluation of its rights in this matter and intends to (a) file a motion seeking vacation of the judgment and (b) raise various defenses under the Bankruptcy Code. The Company determined that the amount of the judgment should have been recognized during the year ended June 30, 2003. As a result, stockholders' equity, current assets, and current liabilities, as reflected in the financial statements as of the year ended June 30, 2003 and the quarter ended September 30, 2003, have been restated. The impact of this restatement was to increase deferred income tax by $181,000, to increase accrued expenses by $477,601 and to reduce retained earnings by $296,601. The impact on the Consolidated Balance Sheet, as a result of the above adjustment, is as follows. The amounts previously reported are derived from the original Form 10-KSB for the year ended June 30, 2003 filed on September 26, 2003 and Form 10-QSB for the quarter ended September 30, 2003 filed on November 12, 2003:

	September 30, 2003 As Previously Reported	September 30, 2003 As Restated	June 30, 2003 As Previously Reported	June 30, 2003 As Restated
Assets				
Current assets				
Cash	$ 555,462	$ 555,462	$ 966,935	$ 966,935
Accounts receivable, net	731,644	731,644	967,009	967,009
Inventories	5,551,977	5,551,977	5,055,195	5,055,195
Income taxes refundable	158,184	158,184	185,000	185,000
Deferred income taxes	288,000	469,000	288,000	469,000
Prepaid expenses and other current assets	222,999	222,999	222,999	222,999
	7,508,266	7,689,266	7,685,138	7,866,138
Property, plant and equipment	964,459	964,459	992,208	992,208
Other assets	81,791	81,791	95,019	95,019
	$ 8,554,516	$ 8,735,516	$ 8,772,365	$ 8,953,365
Liabilities and Stockholders' Equity				
Current liabilities				
Current portion of long-term debt	$ 165,012	$ 165,012	$ 165,012	$ 165,012
Accounts payable	493,025	493,025	472,868	472,868
Accrued expenses	268,034	745,635	319,122	796,723
	926,071	1,403,672	957,002	1,434,603
Long-term debt	426,262	426,262	481,267	481,267
Stockholders' equity				
Series A preferred stock	5,349	5,349	5,349	5,349
Class A common stock	92,590	92,590	92,590	92,590
Additional paid-in capital	5,079,863	5,079,863	5,334,848	5,334,848
Retained earnings	2,024,381	1,727,780	1,901,309	1,604,708
	7,202,183	6,905,582	7,334,096	7,037,495
	$ 8,554,516	$ 8,735,516	$ 8,772,365	$ 8,953,365

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS.

Certain statements in this Form 10-QSB constitute "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Registrant to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the effects of the September 11, 2001 terrorist attack on New York City and Washington, D.C. including effects on international and domestic transportation of goods, the state of the economy; the financial condition of major OEM's such as Baldwin Piano and Organ and Young Chang Pianos; competition; seasonality; success of operating initiatives; new product development and introduction schedules; acceptance of new product offerings; advertising and promotional efforts; adverse publicity; changes in business strategy or development plans; availability and terms of capital; labor and employee benefit costs; changes in government regulations; uncertainty regarding economic recovery of the United States and international economies in general and consumer spending in particular, and other factors particular to Registrant.

GENERAL.

The Registrant's fiscal year ends each June 30, and the fiscal years ended June 30, 2003, June 30, 2004 are referred to as "fiscal 2003", "fiscal 2004", respectively.

Registrant is a Delaware Corporation and is a manufacturer and distributor of pianos, pianomation units, and compact discs and music rolls for use in player pianos. Registrant sells its products to dealers and end-users, predominately in the United States and has divisions in New York, Pennsylvania, Florida and Nevada.

THREE MONTHS ENDED SEPTEMBER 30, 2003 COMPARED TO THE THREE MONTHS ENDED SEPTEMBER 30, 2002.

SALES. Total sales increased 30.65% from $2.66 million in the first three months of fiscal 2003 to $3.48 million in the first three months of fiscal 2004. Increased sales of pianos and pianos equipped with the Pianomation player systems and sales of the new product, the Digital Hymnal, accounted for the increase.

COSTS AND EXPENSES. Total cost of sales increased 34.80% from $1.86 million in the first three months of fiscal 2003 to $2.51 million in the first three months of fiscal 2004. As a percentage of sales, cost of sales increased 2.20 percentage points as a result of the mix of products that were sold.

Selling, general and administrative expenses increased 21.30% from $554,000 in fiscal 2003 to $672,000 in fiscal 2004. The increase is the result of additional sales and marketing expenses incurred during the third quarter as a result of the company shift from its previous manufacturing focus to a sales focus. To accomplish this goal, a larger sales department was established, territories were defined, and personnel were shifted to fill several new sales positions that were created. During the first quarter the company hosted a dealer meeting in their Las Vegas facility. The company invited select dealers from around the country to view new products and participate in seminars related to the sale and use of the company products. New marketing materials, for use in promoting the existing product line, continue to be introduced. Research and Development expenses increased as work continues on new projects and continues to progress on projects in process. Also accounting for the change in the first quarter of 2004 was an unusual increase in the amount of customer's returned checks, and payments made for an upcoming tradeshow that were made in the second quarter of 2003.

INTEREST EXPENSE, NET. Net interest expense decreased 4.29% from $9,800 in the first three months of fiscal 2003 to $9,400 in the first three months of fiscal 2004. The decrease is due to a reduction in the interest rate and outstanding balance during the period.

PROVISION FOR INCOME TAXES. Registrant accrued a provision for federal and state income taxes at an effective rate of 38% for both periods.

NET INCOME. Net income increased 11.93% from $110,000 for the three month period ended September 30, 2002 to $123,000 for the three month period ended September 30, 2003 as a result of the above mentioned variances.

LIQUIDITY AND CAPITAL RESOURCES.

The primary sources of Registrant's cash are net cash flows from operating activities and short-term vendor financing. Currently, Registrant does not have available any established lines of credit with banking facilities.

Registrant's cash was $555,000 and $967,000 at September 30, 2003 and June 30, 2003, respectively. Cash decreased from June 30, 2003 to September 30, 2003 as a result of an increase in inventory and dividend payments made during the quarter. These cash decreases were offset by increases from income earned and cash collected from outstanding accounts receivable.

As of May 15, 2002 the Registrant owed approximately $919,000 to a lending institution pursuant to a note due May 2002. Registrant refinanced the debt prior to the due date. The new note, payable in monthly installments of $13,751, plus accrued interest at the prime rate (4.00% at September 30, 2003) and due in May 2007, requires the Registrant to satisfy certain financial covenants concerning tangible capital funds and debt coverage ratio. As of the date hereof, the Registrant is in compliance with these covenants.

Registrant believes its current available cash position, coupled with its cash forecast for the year and periods beyond, is sufficient to meet its cash needs on both a short-term and long-term basis. There are no major capital expenditures planned in the foreseeable future, nor any payments planned for off-balance sheet obligations. Registrant's management is not aware of any known trends or demands, commitments, events, or uncertainties, as they relate to liquidity which could negatively affect Registrant's ability to operate and grow as planned.

During the period ended December 31, 2002 the Company entered into a twelve-month consulting agreement which provides for the Company to make monthly payments of $10,417 through December 2003 in exchange for consulting services related to further development of several of the Company's product lines.

On December 11, 2002, the Company, through a newly-formed, wholly-owned subsidiary, acquired certain assets of Gulbransen, Inc. for $164,177 in cash, 100,000 shares of the Company's common stock and future royalty payments (through November 1, 2032) based on sales volume. The common stock is to be issued upon the completion of certain documentation. As of September 30, 2003, the common stock was not issued and a liability was recorded in accrued expenses to reflect the fair value, as of December 11, 2002, of the common stock to be issued.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures and Changes in Internal Control over Financial Reporting

During the third quarter of the fiscal year ending June 30, 2004 the Company's chief executive officer and chief financial officer learned of instances of insufficiencies in certain disclosure controls and procedures and internal controls during the fiscal year ending June 30, 2003 and for the first three quarters of fiscal 2004. As a result, an evaluation was performed of the involved disclosure controls and procedures and internal controls and there was found to be a significant deficiency, and necessary improvements needed to be made to ensure these deficiencies would not be repeated. The matter was discussed with the audit committee, the independent auditors, corporate counsel and the Board of Directors. The correction of the deficiency was assigned the highest priority, and action has been taken to correct it.

As a result of the evaluation the following conclusions were reached:

There was no fraud affecting the Company's financial statements.

Restatement of this 10-QSB did not materially affect our reported revenue, earnings and cash flow for the quarter ended September 30, 2003.

Corrective action is being taken to address and remedy the deficiency.

Discussed below is specific information regarding the disclosure controls and procedures deficiency and the internal control deficiencies and the corresponding corrective actions as implemented through May 19, 2004.

In the 3rd quarter of the fiscal year ending June 30, 2004, the Company discovered that a default judgment in the amount of approximately $478,000 plus interest had been entered against it in United States Bankruptcy Court, Southern District of Ohio, Western Division. Due to a gap in the disclosure controls and procedures system the receipt of process was not handled in an appropriate manner, and did not come to the attention of management or counsel within the appropriate time to be properly reviewed and assessed for effect on the company's financial statements and action necessary for proper disclosure. Management has reviewed its procedures and taken appropriate actions to ensure these matters will be handled in the appropriate manner. The company has appointed its current registered agent in the State of Delaware to act as registered agent in all states where the Company has offices. The Company intends to instruct the registered agent that copies of all receipts of process are to be sent to the chief executive officer, chief financial officer, corporate counsel and chairman of the board. Such matters that materially affect the Company's financial position will be immediately brought to the attention of the audit committee, who will in turn prepare a separate analysis of the impact on the Company's financial reporting. It has also been determined that the audit committee will meet on a more frequent basis. As a regular course of business at all Board meetings the audit committee will review with the Board of Directors any outstanding issues. If the audit committee believes an item of a significant nature has arisen, it will immediately request a special Board Meeting to review the circumstances.

Company policies regarding the deficient disclosure controls and procedures have been communicated to all employees in writing.

The Company intends to form a disclosure committee that will meet no less frequently than quarterly to review and discuss any outstanding or potential issues.

Management intends to engage in additional training and continuing education regarding best practices for disclosure and control procedures and internal controls.

The Company is committed to ongoing periodic reviews of its controls and their effectiveness. Controls have improved and management has no reason to believe that the financial statements included in this report are not fairly stated in all material respects. Management believes its practices and procedures, although not as mature or as formal as management intends them to be in the future, are adequate under the circumstances, and that there are no material inaccuracies or omissions in this Form.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the 3rd quarter of the fiscal year ending June 30, 2004, the Company discovered that in August 2003, a default judgment in the amount of approximately $478,000 plus interest had been entered against it in United States Bankruptcy Court, Southern District of Ohio, Western Division. The default judgment was granted to Dwight's Piano Co, fka Baldwin Piano & Organ Company and subsidiaries and was based upon Plaintiff's claims that preferential transfers were made during the 90 day period prior to Baldwin's bankruptcy filing on May 31, 2001. The Company intends to promptly file a motion seeking vacation of the judgment under Fed.R.Bankr.P. 9024 and 7055. It also intends to raise various defenses under 11 USC 547(c) of the Bankruptcy Code.

Item 6. Exhibits and Reports on Form 8-K.

a.

Exhibit Index

31.1	Certifications (of Chief Financial Officer)
31.2	Certifications (of Chief Executive Officer)
32.1	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350

SIGNATURE

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QRS Music Technologies, Inc.

Date 05/21/04

/s/ ANN A. JONES

Ann A. Jones, *Chief Financial Officer*