

Orchard Enterprises, Inc.
Form 10-Q
August 14, 2009

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR
15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2009**

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) 000-51761

THE ORCHARD ENTERPRISES, INC.

(Exact Name of Registrant As Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation)

20-3365526
(IRS Employer
Identification No.)

**23 East 4th Street, 3rd Floor
New York, NY**

(Address of Principal Executive Offices)

10003

(Zip Code)

(212) 201-9280

(Registrant's Telephone Number, Including Area Code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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) has been subject to such filing requirements for at least the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

The number of shares of common stock, par value \$0.01 per share, outstanding as of August 12, 2009 was 6,396,115.

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	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,197,212	\$4,521,027
Accounts receivable net	10,646,303	12,576,934
Inventory	115,564	133,404
Royalty advances	4,079,246	2,720,119
Prepaid expenses and other current assets	917,873	980,226
Total current assets	19,956,198	20,931,710
Royalty advances, less current portion	1,974,673	2,152,169
Music and audio content net	5,085,252	5,604,500
Property and equipment net	2,518,358	1,609,467
Intangible assets net	848,944	907,472
Goodwill	26,463,900	26,463,900
Other assets	495,169	410,284
Total assets	\$57,342,494	\$58,079,502
LIABILITIES, REDEEMABLE PREFERRED STOCK, AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$1,695,211	\$907,661
Accrued royalties	18,552,243	17,756,902
Accrued expenses	805,321	1,223,717
Deferred revenue	1,295,790	1,534,702
Total current liabilities	22,348,565	21,422,982
Commitments and Contingencies		
Redeemable preferred stock:		
Series A convertible preferred stock, \$0.01 par value 448,833 shares designated and issued; 448,707 shares outstanding; liquidation preference of \$24,992,980 as of June 30, 2009 and December 31, 2008	7,015,276	7,015,276
Stockholders equity:		
Preferred stock, \$0.01 par value 1,000,000 shares authorized and 448,833 shares designated; 551,167 shares undesignated; no undesignated shares issued and outstanding as of June 30, 2009 and		

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December 31, 2008

Common stock, \$0.01 par value 30,000,000 shares authorized; 6,396,115 and 6,276,609 shares issued and outstanding as of June 30, 2009 and December 31, 2008	63,961	62,766
Additional paid-in capital	56,472,319	55,926,156
Accumulated deficit	(28,494,272)	(26,347,793)
Accumulated other comprehensive (loss) income	(63,355)	115
Total stockholders equity	27,978,653	29,641,244
Total liabilities, redeemable preferred stock, and stockholders equity	\$57,342,494	\$58,079,502

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

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THE ORCHARD ENTERPRISES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2009	2008	June 30, 2009	2008
	(Unaudited)		(Unaudited)	
Revenues	\$ 15,057,536	\$ 13,402,530	\$ 30,385,512	\$ 26,558,300
Cost of revenues	11,059,097	9,859,667	22,136,605	19,462,347
Gross profit	3,998,439	3,542,863	8,248,907	7,095,953
Operating expenses	5,144,202	4,422,790	10,827,188	9,146,043
Loss from operations	(1,145,763)	(879,927)	(2,578,281)	(2,050,090)
Other income (expense):				
Interest income	2,054	56,227	4,993	140,927
Interest expense	(15,467)		(27,555)	
Loss from disposal of property and equipment				(21,767)
Other income	70,649	38,208	454,364	41,053
Total other income	57,236	94,435	431,802	160,213
Net loss	\$(1,088,527)	\$(785,492)	\$(2,146,479)	\$(1,889,877)
Loss per share – basic and diluted	\$(0.18)	\$(0.12)	\$(0.35)	\$(0.30)
Weighted average shares outstanding basic and diluted	6,155,816	6,292,143	6,129,749	6,244,734

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

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THE ORCHARD ENTERPRISES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF
CASH FLOWS

	For the Six Months Ended June 30,	
	2009	2008
	(Unaudited)	
Cash flows from operating activities:		
Net loss	\$(2,146,479)	\$(1,889,877)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	917,667	610,067
Bad debt expense	320,000	102,735
Loss on disposition and writedowns of property and equipment		