

Edgar Filing: STAR STRUCK LTD - Form 10QSB

STAR STRUCK LTD
Form 10QSB
August 15, 2002

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

FORM 10-QSB

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

For the quarterly period ended JUNE 30, 2002

OR

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

For the transition period from _____ to _____

Commission File Number 1-8912

STAR STRUCK, LTD.

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

Delaware

(State or other jurisdiction of
incorporation or organization)

36-1805030

(I.R.S. Employer
Identification No.)

1865 Palmer Avenue
Larchmont, NY

(Address of principal executive offices)

10538

(Zip Code)

Issuer's telephone number (914) 833-0649

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE
PRECEDING FIVE YEARS:

Check whether the registrant filed all documents and reports required to be
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court. Yes ___ No ___

APPLICABLE ONLY TO CORPORATE ISSUERS:

State the number of shares outstanding of each of the issuer's classes of common

Edgar Filing: STAR STRUCK LTD - Form 10QSB

equity, as of the latest practicable date: \$1.00 par value - 2,025,899 shares at August 9, 2002.

Transitional Small Business Disclosure Format (checkbox):

Yes No X
--- ----

STAR STRUCK, LTD.

FORM 10-QSB

INDEX

JUNE 30, 2002

PART I.	FINANCIAL INFORMATION	Page No. -----
	ITEM 1.	
	Consolidated Balance Sheets- June 30, 2002 (unaudited) and December 31, 2001 (audited)	1 & 2
	Consolidated Statements of Operations-unaudited Six Months Ended June 30, 2002 and 2001	3
	Consolidated Statements of Operations-unaudited Three Months Ended June 30, 2002 and 2001	4
	Consolidated Statements of Cash Flows-unaudited Six Months Ended June 30, 2002 and 2001	5
	Notes to Consolidated Financial Statements- June 30, 2002	6 -8
	ITEM 2.	
	Management's Discussion and Analysis of Financial Condition and Results of Operations	9-11
PART II.	OTHER INFORMATION	12

STAR STRUCK, LTD.

CONSOLIDATED BALANCE SHEETS

Edgar Filing: STAR STRUCK LTD - Form 10QSB

JUNE 30, 2002 AND DECEMBER 31, 2001

A S S E T S

	2002 ----- (Unaudited)	2001 ----- (Audited)
CURRENT ASSETS:		

Cash	\$ 111,000	\$ 63,000
Accounts receivable, less allowance for doubtful accounts of \$82,000 in 2002 and 2001	909,000	1,146,000
Inventories	3,246,000	2,359,000
Prepaid expenses and other current assets	447,000	604,000
	-----	-----
TOTAL CURRENT ASSETS	4,713,000	4,172,000
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, AT COST:		

Land, building and improvements	1,242,000	1,235,000
Machinery and equipment	882,000	841,000
	-----	-----
	2,124,000	2,076,000
Less: accumulated depreciation and amortization	942,000	877,000
	-----	-----
PROPERTY, PLANT AND EQUIPMENT, NET	1,182,000	1,199,000
	-----	-----
INTANGIBLE ASSETS AND GOODWILL, NET	438,000	272,000
	-----	-----
TOTAL ASSETS	\$ 6,333,000	\$ 5,643,000
	=====	=====

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

- 1 -

STAR STRUCK, LTD.

CONSOLIDATED BALANCE SHEETS (Continued)

JUNE 30, 2002 AND DECEMBER 31, 2001

LIABILITIES AND SHAREHOLDERS' EQUITY

Edgar Filing: STAR STRUCK LTD - Form 10QSB

	2002 ----- (Unaudited)	2001 ----- (Audited)
CURRENT LIABILITIES:		

Accounts payable and accrued expenses	\$1,653,000	\$ 1,325,000
Borrowings under line of credit	1,179,000	1,276,000
Current portion of long-term debt	35,000	40,000
	-----	-----
TOTAL CURRENT LIABILITIES	2,867,000	2,641,000
	-----	-----
OTHER LIABILITIES:		

Notes payable - shareholders	912,000	872,000
Long-term debt, less current portion	546,000	549,000
	-----	-----
TOTAL LIABILITIES	4,325,000	4,062,000
	-----	-----
NONCONTROLLING INTEREST	392,000	-----
	-----	-----
COMMITMENTS AND CONTINGENCIES	-----	-----
	-----	-----
SHAREHOLDERS' EQUITY:		

Preferred shares, \$1 par value-500,000 shares authorized; none issued and outstanding	-----	-----
Common shares, \$1 par value-5,000,000 shares authorized; issued and outstanding- 2,026,000 shares	2,026,000	2,026,000
Additional paid-in capital	4,584,000	4,584,000
Accumulated deficit	(4,994,000)	(5,029,000)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	1,616,000	1,581,000
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,333,000	\$ 5,643,000
	=====	=====

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

Edgar Filing: STAR STRUCK LTD - Form 10QSB

CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

		2002

NET SALES	\$	4,389,000

COST OF SALES		1,857,000
-----		-----
GROSS PROFIT ON SALES		2,532,000

OPERATING EXPENSES:		

Selling, general and administrative		2,369,000
Depreciation and amortization		184,000

TOTAL OPERATING EXPENSES		2,553,000

OPERATING (LOSS) INCOME		(21,000)

OTHER INCOME (EXPENSE), net:		

List rental income		139,000
Interest expense, net		(148,000)

Loss from continuing operations before provision for income taxes and noncontrolling interest		(30,000)
PROVISION FOR INCOME TAXES		-----

NONCONTROLLING INTEREST IN LOSS OF SUBSIDIARY		65,000
-----		-----
Income (loss) from continuing operations		35,000

LOSS FROM DISCONTINUED OPERATIONS		-----

NET INCOME (LOSS)	\$	35,000
-----		=====
PER SHARE (Note 1)		

Basic and diluted loss per common share:		
Income (loss) from continuing operations		.02

Edgar Filing: STAR STRUCK LTD - Form 10QSB

Loss from discontinued operations		-----	

Net income (loss) per common share	\$.02	\$
		=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES			

Basic and diluted		2,026,000	
		=====	=====

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

-3-

STAR STRUCK, LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED

FOR THE THREE MONTHS ENDED JUNE 30, 2002 AND 2001

		2002	

NET SALES	\$	2,217,000	\$
COST OF SALES		996,000	

GROSS PROFIT ON SALES		1,221,000	

OPERATING EXPENSES:			

Selling, general and administrative		1,329,000	
Depreciation and amortization		78,000	

TOTAL OPERATING EXPENSES		1,407,000	

OPERATING (LOSS) PROFIT		(186,000)	

OTHER INCOME (EXPENSE), net:			

List rental income		65,000	

Edgar Filing: STAR STRUCK LTD - Form 10QSB

Interest expense, net	(76,000)	

(Loss) income from continuing operations before provision for income taxes and noncontrolling interest	(197,000)	
PROVISION FOR INCOME TAXES	-----	

NONCONTROLLING INTEREST IN LOSS OF SUBSIDIARY	31,000	
-----	-----	
(Loss) income from continuing operations	(166,000)	
LOSS FROM DISCONTINUED OPERATIONS	-----	
-----	-----	
NET (LOSS) INCOME	\$ (166,000)	
-----	=====	=====
PER SHARE (Note 1)		

Basic and diluted loss per common share:		
(Loss) income from continuing operations	(.08)	
Loss from discontinued operations	-----	

Net (loss) income per common share	\$ (.08)	\$
	=====	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		

Basic and diluted	2,026,000	
	=====	

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

-4-

STAR STRUCK, LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

FOR THE SIX MONTHS ENDED JUNE 2002 AND 2001

2002

Edgar Filing: STAR STRUCK LTD - Form 10QSB

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 35,000	

Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	184,000	
Amortization of debt discount	40,000	
Noncontrolling interest in loss of subsidiary	(65,000)	
Loss from discontinued operations	-----	
Changes in operating assets and liabilities:		
Accounts payable and accrued expenses	278,000	
Accounts receivable	237,000	
Prepaid expenses and other current assets	157,000	
Deferred contract fees	(20,000)	
Inventories	(398,000)	

Total Adjustments	413,000	

NET CASH PROVIDED BY OPERATING ACTIVITIES	448,000	

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	(49,000)	
Net cash paid for business acquired	(232,000)	

NET CASH USED IN INVESTING ACTIVITIES	(281,000)	

CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	550,000	
Proceeds from note payable-officer	-----	
Deferred financing costs	(14,000)	
Payments on line of credit, net	(97,000)	
Repayments of long-term debt	(558,000)	

NET CASH USED IN FINANCING ACTIVITIES	(119,000)	

NET CASH USED IN DISCONTINUED OPERATIONS	-----	
NET INCREASE (DECREASE) IN CASH	48,000	
CASH AT BEGINNING OF PERIOD	63,000	

CASH AT END OF PERIOD	\$ 111,000	\$
	=====	=====
Cash paid during the period for interest	\$ 67,000	\$
Cash paid for business acquired is comprised of:		
Fair value of assets acquired	\$ 739,000	\$
Liabilities assumed	-----	

Purchased price, net of cash received	739,000	
Note payable issued for business acquired	(50,000)	
Common stock issued for business acquired	(457,000)	

Edgar Filing: STAR STRUCK LTD - Form 10QSB

Net cash paid for business acquired	\$	----- (232,000) =====	\$
-------------------------------------	----	-----------------------------	----

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

- 5 -

STAR STRUCK, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2002

(1) Basis of Presentation

The consolidated financial statements heretofore presented have been prepared by Star Struck, Ltd., ("the Company" or "SSL"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. SSL is a holding company whose 100% owned operating subsidiary Star Struck, Inc. ("SSI") is primarily engaged in the distribution of watch batteries and related products. In 2001, SSI formed a subsidiary, Star Struck/ProTeam, Inc. ("SSPT"), for the purpose of operating SSI's sports apparel segment and acquiring certain assets of ProTeam.com, Inc. (ProTeam) (see Note 2).

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been omitted pursuant to such rules and regulations. Although the Company believes that the disclosures are adequate to make the information presented not misleading, it is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-KSB for the year ended December 31, 2001. The interim figures presented are unaudited and are subject to any adjustments which may result from the year-end audit of the Company's consolidated financial statements. However, in the opinion of management, the information furnished reflects all adjustments necessary to fairly state the consolidated financial statements for the interim periods presented.

Net income (loss) per common share is computed based on the weighted average number of shares outstanding during each period. The weighted average number of shares used in the computation of earnings per share was 2,026,000 for 2002 and 2001. Common stock equivalents are anti-dilutive at June 30, 2002.

The profit and loss information for the interim periods presented are not necessarily indicative of results to be expected for the entire fiscal year.

(2) Acquisition

On January 7, 2002, SSI transferred its sports apparel business, including its

Edgar Filing: STAR STRUCK LTD - Form 10QSB

sports apparel inventory, to its newly formed subsidiary, SSPT for eighty percent of the shares of SSPT. On that same date, SSPT acquired from ProTeam, its sports apparel business, including its sports apparel inventory and a related customer list. In consideration of the acquisition, ProTeam received twenty-percent of the shares of SSPT, a payment of \$300,000 and a \$50,000 promissory note. SSPT intends to continue using the assets acquired in the sports apparel distribution business. The acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets purchased based upon their fair values at the date of acquisition.

The purchase price was allocated to the assets acquired (no liabilities were assumed) based upon their estimated fair values as follows:

Inventory	\$ 489,000
Mailing list	250,000

Total assets purchased	739,000
Accrued liabilities assumed	-----

Total purchase price	\$ 739,000
	=====

(3) Inventories

Inventories, with the exception of gold, are stated at the lower of cost (first-in, first-out) or market. Gold inventory (approximately \$82,000 at June 30, 2002) is valued at market. Inventories consist principally of finished goods.

- 6 -

STAR STRUCK, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2002

(4) Business Segments

The Company's operations by business segment for the six months period ended June 30, 2002 and 2001 were as follows:

	Battery & Watch Strap Distribution	Sports Apparel Distribution	Total
2002	-----	-----	-----
Net Sales	\$ 3,178,000	\$ 1,211,000	\$ 4,389,000
Operating Profit/(Loss)	\$ 400,000	\$ (421,000)	\$ (21,000)
2001	-----	-----	-----
Net Sales	\$ 3,704,000	\$ 1,157,000	\$ 4,861,000

Edgar Filing: STAR STRUCK LTD - Form 10QSB

Operating Profit/(Loss)	\$	297,000	\$	(136,000)	\$	161,000
-------------------------	----	---------	----	-----------	----	---------

(5) Bank Debt

The Company has a \$1,500,000 line of credit agreement with one of its banks, as amended. Availability under this line is based on the Borrowing Base, as defined in the agreement with the bank. The remaining amount available under the Borrowing Base was approximately \$321,000 at June 30, 2002. This agreement extends through June 2003 and bears interest at the prime rate plus one percent (5.5% at June 30, 2002). The Company's accounts receivable and a portion of its inventory have been pledged as collateral for this line of credit. The agreement contains certain financial covenants, including the requirement for the Company to maintain a minimum tangible net worth. The Company did not comply with this covenant at June 30, 2002 and was in default of the line of credit agreement. The Company is currently negotiating the extension of the current agreement, as well as a new agreement. The company expects to be in compliance with the covenants of the new agreement upon it's execution. As of June 30, 2002, the Company had \$1,179,000 outstanding under this line of credit, all of which is included in current liabilities on the accompanying consolidated balance sheets.

The Company refinanced its mortgage note payable in March 2002. The mortgage note has a balance of \$545,000 at June 30, 2002, a maturity date of March 2017 and interest at a fixed rate of 7.95% for the first five years which is subject to restatement on the fifth and tenth year anniversary dates based on the most recent published Federal Home Bank of Boston Classic Credit Five-Year Loan Advance Rate plus two and one-half percent. The Company's building has been pledged as collateral.

(6) Related Party Notes Payable

In August 2000, the Company entered into promissory notes, (the "Notes") with three of the Company's shareholders, two of which are members of the Company's management, for an aggregate of \$1,000,000. Each note bears interest at 10%, due quarterly, and the principal amount matures in August 2003. In connection with these notes, the Company issued warrants for the purchase of 500,000 shares of the Company's common stock at an exercise price of \$1.50 per share exercisable through July 31, 2005. The fair value of these warrants of \$240,000 has been recorded as original issue discount, resulting in a reduction in the carrying value of this debt. The original issue discount will be amortized into interest expense over the period of the notes. For each of the six month periods ended June 30, 2002 and 2001, \$40,000, has been accreted and is included in interest expense in the accompanying consolidated statements of operations. These notes are subordinate to the Company's borrowings under the line of credit.

- 7 -

STAR STRUCK, LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

JUNE 30, 2002

(7) Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 144, "Accounting for the

Edgar Filing: STAR STRUCK LTD - Form 10QSB

Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-lived Assets to Be Disposed Of ". The accounting model for long-lived assets to be disposed of by sale applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, "Reporting Results of Operations - Reporting the Effects of Disposal of a Segment of a Business", for the disposal of segments of a business. SFAS 144 establishes a single accounting model for long-lived assets to be disposed of by sale and resolves significant implementation issues relating to impairment of long-lived assets to be held and used or disposed of other than by sale. SFAS 144 requires that those long-lived assets to be disposed by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore, discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 requires entities to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset at the discounted value of the asset retirement obligation. SFAS 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company does not believe that adoption of SFAS 143 will have a material impact on its consolidated financial statements.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 requires goodwill and certain intangible assets with indefinite useful lives to be subject to an annual review for impairment, and written off when impaired, rather than being amortized as previous standards required. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The adoption of SFAS 142 eliminates the Company's amortization expense relating to goodwill of approximately \$6,200 for the six-months ended June 30, 2002.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("SFAS 141"). SFAS 141 changes the accounting for business combinations by, among other things, prohibiting the prospective use of pooling-of-interests accounting. SFAS 141 is effective for all business combinations consummated after June 30, 2001. The adoption of SFAS 141 did not have a material effect on the Company's operating results or financial condition.

-8-

STAR STRUCK, LTD.

ITEM 2, MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

SIX MONTHS ENDED JUNE 30, 2002

Edgar Filing: STAR STRUCK LTD - Form 10QSB

COMPARED TO
SIX MONTHS ENDED JUNE 30, 2001

Sales. Sales decreased \$472,000, or 9.7%, to \$4,389,000 for the first six months of 2002. Sports apparel sales, for the first fiscal six month's, increased \$54,000, while the battery and watch strap business sales decreased \$526,000 from the same period for 2001. The decrease in battery and watch strap sales attributable to the overall economic downturn experienced during the same period.

Gross Profit. Gross profit decreased by \$34,000 to \$2,532,000 in the six month period of 2002. However, consolidated gross margin increased to 58% from 53% during the same period. For the first six months of 2002, sports apparel sales, which represented 27.6% of total revenue, had a gross margin of 53.5%. This is an increase of 4.8% over the first six month period in 2001 of 48.7%. Gross margin on battery and watch strap sales was 59.3% for the first six months of 2002 compared to 54.1% for the same period in 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$169,000 to \$2,369,000, or 7.7%, in the first six months of 2002. This increase is mostly attributable to the increase in staffing in the sports apparel business segment. As a percentage of sales, selling, general and administrative expenses increased by 8.7% to 54% in the first quarter of 2002 compared to 45.3% for the same period in 2001.

Operating Profit/(Loss). Operating loss of \$21,000 for the first six-months of 2002 represents a \$182,000 decrease from 2001's six month's operating profit of \$161,000. During the first six month's of 2002, the battery and watch strap distribution segment showed an operating profit of \$400,000 as compared to \$297,000 in 2001. The operating loss for sports apparel distribution increased \$285,000 from 2001's operating loss of \$136,000 to show a loss of \$421,000 for the first quarter of 2002.

Interest Expense. Net interest expense for the first six month reporting periods of 2002 and 2001 were \$148,000 and \$181,000, respectively. Approximately \$35,000 in interest expense related to the borrowing on the Company's outstanding line of credit compared to \$64,000 in 2001. Interest on a mortgage totaled approximately \$16,000 in the first six month period of 2002. Interest expense for notes payable to shareholders totaled \$90,000 for the six month's ended June 30, 2002. Included in this amount is \$40,000 of amortized debt discount.

Net Income. Net income for the first six month's of 2002 increased \$65,000 from 2001's loss of \$30,000 to show net income of \$35,000.

Liquidity and Capital Resources. The Company has a \$1,500,000 line of credit agreement with one of its banks, as amended. Availability under this line is based on the Borrowing Base, as defined in the agreement with the bank. The remaining amount available under the Borrowing Base was approximately \$321,000 at June 30, 2002. This agreement extends through June 2003 and bears interest at the prime rate plus one percent (5.5% at June 30, 2002). The Company's accounts receivable and a portion of its inventory have been pledged as collateral for this line of credit. The agreement contains certain financial covenants, including the requirement for Star Struck, Inc. to maintain a minimum tangible net worth. The Company did not comply with this covenant at June 30, 2002 and was in default of the line of credit agreement. The Company is currently negotiating the extension of the current agreement, as well as a new agreement. As of June 30, 2002, the Company had \$1,179,000 outstanding under this line of credit, all of which is included in current liabilities on the accompanying consolidated balance sheets.

At June 30, 2002 net working capital was \$1,846,000.

ITEM 2, MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)
FOR THE SIX MONTHS ENDED JUNE 30, 2002 AND 2001

SIX MONTHS ENDED JUNE 30, 2002
COMPARED TO
SIX MONTHS ENDED JUNE 30, 2001

Safe Harbor Forward-Looking Statements. The Company's prospects are subject to certain uncertainties and risks. The discussions set forth in this Form 10-Q report contain certain statements, based on current expectations, estimates, forecasts and projections about the industry in which the Company operates and management's beliefs and assumptions, which are not historical facts and are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 ("the Act"). Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words "believe," "will be," "will continue," "will likely result," "anticipates," "seeks to," "estimates," "expects," "intends," "plans," "predicts," "projects," and similar words, expressions or phrases of similar meaning. The Company's actual results could differ materially from those projected in the forward-looking statements as a result of certain risks, uncertainties and assumptions, which are difficult to predict. The risks and uncertainties are detailed from time to time in reports filed by the Company with the Securities and Exchange Commission ("SEC"), including Forms 8-K, 10-Q, and 10-K, and include, among other factors, general economic conditions and growth in the watch batteries and related products industry and the sports apparel industry, competitive factors and pricing pressures, changes in product mix, product demand, risk of dependence on third party suppliers, the ability of the Company to sustain, manage or forecast its growth and inventories, performance and reliability of products, customer service, adverse publicity, business disruptions; increased costs of freight and transportation to meet delivery deadlines, changes in business strategy or development plans, turnover of key employees, the ability of the Company to obtain necessary financing, and other risk factors detailed in this report, described from time to time in the Company's other SEC filings, or discussed in the Company's press releases. In addition, other written or oral statements made or incorporated by reference from time to time by the Company or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise are forward-looking statements within the meaning of the Act. All forward-looking statements included in this document are based upon information available to the Company on the date hereof. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

The risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on its business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these

Edgar Filing: STAR STRUCK LTD - Form 10QSB

risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to them any material information unless such information shall have been previously or is simultaneously disclosed in a manner intended to provide broad, non-exclusionary distribution of the information to the public. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

- 10 -

STAR STRUCK, LTD.

ITEM 2, MANAGEMENT'S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

FOR THE THREE MONTHS ENDED JUNE 30, 2002 AND 2001

THREE MONTHS ENDED JUNE 30, 2002
COMPARED TO
THREE MONTHS ENDED JUNE 30, 2001

Sales. Sales decreased \$144,000, or 6.1%, to \$2,217,000 for the second quarter of 2002. Sports apparel sales increased \$59,000, or 7.8%, from \$753,000 in 2001 to \$812,000 for the second quarter of 2002. This was combined with a decrease in battery and watch strap sales of \$203,000, or 12.6%, from \$1,608,000 to \$1,405,000 in the second quarter of 2002.

Gross Profit. Gross profit decreased \$82,000 to \$1,221,000 in the second quarter of 2002. Gross margin remained flat at 55% for the three month periods ending in 2002 and 2001. For the second quarter in 2002, sports apparel sales, which represented 36.6% of total revenue, had a gross margin of 52.8%. This is an increase from 2001's second quarter's gross margin of 51.3%. Gross margin on battery and watch strap sales was 56.3% for the second three months of 2002 compared to 57% for the same period in 2001.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$234,000 to \$1,329,000 in the second quarter of 2002 as compared with \$1,095,000 in 2001. As a percentage of sales, selling, general and administrative expenses increased by 13.5% to 59.9% in the second quarter of 2002 compared to 46.4% for the same period in 2001. This increase was due, in large part, to increased staffing requirements in the sports apparel segment.

Operating Profit/(Loss). Operating profit decreased \$291,000 resulting in a loss of \$186,000 for the second quarter of 2002. The battery and watch strap distribution segment was approximately at break even for the second quarter of 2002 as compared to a profit of \$142,000 during the same period of 2001. The operating loss for sports apparel accounted for substantially all of the operating loss of \$186,000, as compared to the 2001 second quarter loss of

Edgar Filing: STAR STRUCK LTD - Form 10QSB

\$32,000.

Interest Expense. Net interest expense was \$76,000 for the second quarter of 2002 versus \$85,000 for the same period in 2001. Approximately \$18,000 in interest expense related to the borrowing on the Company's outstanding line of credit compared to \$27,000 in 2001. Interest on a mortgage totaled approximately \$8,000 in the second quarter of 2002. Interest expense for notes payable to shareholders totaled \$45,000 for the quarter ended June 30, 2002. Included in this amount is \$20,000 of amortized debt discount.

Net Income/(Loss). Net income for the second quarter of 2002 decreased \$176,000 from 2001's profit of \$10,000 to show a net loss of \$166,000.

- 11 -

PART II - OTHER INFORMATION

STAR STRUCK, LTD.

JUNE 30, 2002

- Item 1. Legal Proceedings
None
- Item 2. Changes in Securities
None
- Item 3. Defaults upon Senior Securities
None
- Item 4. Submission of Matters to a Vote of Security Holders
None
- Item 5. Other Information
None
- Item 6. Exhibits and Reports on Form 8-K
None

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.

STAR STRUCK, LTD.

Date: August 13, 2002

By: /s/Kenneth Karlan

Kenneth Karlan, President

Date: August 13, 2002

By: /s/Keith Sessler

Keith Sessler, Vice President

-12 -