

K TEL INTERNATIONAL INC  
Form 10-Q  
February 14, 2007

## 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 December 31, 2006

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: 1-07115

## K-TEL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of  
incorporation or organization)

**41-0946588**

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

**2491 Xenium Lane North, Plymouth, Minnesota**

(Address of principal executive offices)

**55441**

(Zip Code)

Registrant's telephone number, including area code: **(763) 559-5566**

Securities registered pursuant to Section 12(b) of the Act:

**None**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, par value \$0.01**

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(Title of class)

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 the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of February 13, 2007, the registrant had 13,653,738 shares of Common Stock outstanding.

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**K-TEL INTERNATIONAL, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE THREE AND SIX MONTH PERIODS**

**ENDED DECEMBER 31, 2006**

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**PART I.**

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**SAFE HARBOR STATEMENT UNDER THE**

**PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

Certain statements of a non-historical nature under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may be identified by the use of terminology such as "may," "will," "expect," "anticipate," "estimate," "should," or "continue" or the negative thereof or other variations thereon or comparable terminology. Such forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or from those results currently anticipated or projected. Such factors include, among other things, the following: changes in consumer purchasing; demand for and market acceptance of new and existing products; the impact from competition for recorded music; the outcome of legal proceedings; dependence on suppliers and distributors; success of marketing and promotion efforts; technological changes and difficulties; availability of financing; foreign currency variations; general economic, political and business conditions; and other matters. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements, except as required by law.



## K-TEL INTERNATIONAL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS - UNAUDITED

*(in thousands except share data)*

	December 31, 2006	June 30, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,690	\$ 1,689
Accounts receivable, net of allowance for doubtful accounts of \$2 at December 31 and June 30	604	601
Inventories	377	390
Royalty advances	7	7
Prepaid expenses and other	225	194
Total current assets	2,903	2,881
Property and equipment, net of accumulated depreciation and amortization of \$330 at December 31 and \$306 at June 30	52	55
Owned catalog masters, net of accumulated amortization of \$3,356 at December 31 and \$3,277 at June 30	261	336
	\$ 3,216	\$ 3,272
<b>LIABILITIES AND SHAREHOLDERS DEFICIT</b>		
Current liabilities:		
Notes payable to affiliate and other	\$ 12,812	\$ 12,098
Accounts payable	863	1,206
Accrued royalties	2,083	1,793
Reserve for returns	55	126
Net liabilities of discontinued operations	23	31
Total current liabilities	15,836	15,254
Shareholders' deficit:		
Common stock 50,000,000 shares authorized; par value \$.01; 13,653,738 issued and outstanding at December 31 and June 30	136	136
Additional paid-in capital	21,292	21,292
Accumulated deficit	(33,853)	(33,134)
Accumulated other comprehensive loss	(195)	(276)
Total shareholders' deficit	(12,620)	(11,982)
	\$ 3,216	\$ 3,272

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

**K-TEL INTERNATIONAL, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED**

*(in thousands - except per share data)*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Net sales	\$ 1,009	\$ 1,302	\$ 1,897	\$ 2,498
Costs and expenses:				
Cost of goods sold	412	580	699	1,085
Advertising	56	68	119	88
Selling, general and administrative	661	588	1,311	1,331
Total costs and expenses	1,129	1,236	2,129	2,504
Operating income (loss)	(120 )	66	(232 )	(6 )