

K TEL INTERNATIONAL INC
Form 10-Q
November 22, 2006

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 March 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

(Title of class)

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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 November 13, 2006, the registrant had 13,653,738 shares of common stock outstanding.

K-TEL INTERNATIONAL, INC. AND SUBSIDIARIES

FORM 10-Q

FOR THE THREE AND NINE MONTH PERIODS

ENDED MARCH 31, 2006

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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)

	March 31, 2006	June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,374	\$ 1,272
Accounts receivable, net of allowance for doubtful accounts of \$4 at March 31 and June 30	1,172	2,045
Inventories	374	563
Royalty advances	6	6
Prepaid expenses and other	231	227
Total current assets	3,157	4,113
Property and equipment, net of accumulated depreciation and amortization of \$1,156 at March 31 and \$1,138 at June 30	61	84
Owned catalog masters, net of accumulated amortization of \$3,237 at March 31 and \$3,115 and June 30	376	498
	\$ 3,594	\$ 4,695
LIABILITIES AND SHAREHOLDERS DEFICIT		
Current liabilities:		
Notes payable to affiliate and other	\$ 11,618	\$ 11,518
Accounts payable	1,103	1,727
Accrued royalties	1,898	1,760
Reserve for returns	254	221
Net liabilities of discontinued operations	30	30
Total current liabilities	14,903	15,256
Shareholders' deficit:		
Common stock 50,000,000 shares authorized; par value \$.01; 13,653,738 issued and outstanding at March 31 and June 30	136	136
Additional paid-in capital	21,292	21,292
Accumulated deficit	(32,628)	(31,923)
Accumulated other comprehensive loss	(109)	(66)
Total shareholders' deficit	(11,309)	(10,561)
	\$ 3,594	\$ 4,695

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)*

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2006	2005	2006	2005
Net sales	\$ 1,144	\$ 1,316	\$ 3,642	\$ 4,847
Costs and expenses:				
Cost of goods sold	432	405	1,517	2,098
Advertising	25	24	113	91
Selling, general and administrative	728	929	2,059	2,719
Total costs and expenses	1,185	1,358	3,689	4,908
Operating loss	(41)	(42)	(47)	(61)