

K TEL INTERNATIONAL INC  
Form 10-Q  
February 17, 2004

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended December 31, 2003

or

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**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.)

**2655 Cheshire Lane North, Suite 100, Plymouth,  
Minnesota**

(Address of principal executive offices)

**55447**

(Zip Code)

**(763) 559-5566**

(Registrant's telephone number, including area code)

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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 an accelerated filer (as defined by Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of February 13, 2004, there were 13,653,738 shares of the registrant's common stock, par value \$0.01 per share, outstanding.

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

**FORM 10-Q**

**FOR THE THREE AND SIX MONTH PERIODS**

**ENDED DECEMBER 31, 2003**

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**Important Factors Relating to Forward Looking Statements**

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; the outcome of our subsidiaries' bankruptcy and liquidation; 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)*

	December 31, 2003	June 30, 2003
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 49	\$ 1,219
Accounts receivable, net of allowance for doubtful accounts of \$27 and \$25	1,833	1,559
Inventories	588	520
Royalty advances	243	235
Prepaid expenses and other	511	304
Total Current Assets	3,224	3,837
Property and equipment, net of accumulated depreciation and amortization of \$1,466 and \$1,506	103	101
Owned catalog masters, net of accumulated amortization of \$2,852 and \$2,755	733	819
	\$ 4,060	\$ 4,757
<b>LIABILITIES AND SHAREHOLDERS' DEFICIT</b>		
Current Liabilities:		
Notes payable to affiliate and other	\$ 11,198	\$ 11,515
Accounts payable	974	1,162
Accrued royalties	2,467	2,333
Reserve for returns	204	213
Net liabilities of discontinued operations	118	116
Total Current Liabilities	14,961	15,339
Shareholders' Deficit:		
Common stock 50,000,000 shares authorized; par value \$.01; 13,653,738 issued and outstanding	136	136
Additional paid-in capital	21,292	21,292
Accumulated deficit	(32,115)	(31,759)
Accumulated other comprehensive loss	(214)	(251)
Total Shareholders' Deficit	(10,901)	(10,582)
	\$ 4,060	\$ 4,757

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 December 31,</b>		<b>Six Months Ended December 31,</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
Net Sales	\$ 1,759	\$ 1,874	\$ 3,377	\$ 3,372
Costs and Expenses:				
Cost of goods sold	860	897	1,529	1,496
Advertising	32	19	75	65
Selling, general and administrative	954	959	1,820	1,910
Total Costs and Expenses	1,846	1,876	3,424	3,472
Operating Loss	(87)	(2)	(47)	(100)
Other Expense:				
Interest expense	(120)	(133)	(237)	