

HANDLEMAN CO /MI/
Form 10-Q
December 06, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 27, 2007

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 1-7923

HANDLEMAN COMPANY

(Exact name of registrant as specified in its charter)

MICHIGAN
(State or other jurisdiction of incorporation or organization)

38-1242806
(I.R.S. Employer Identification No.)

500 Kirts Boulevard, Troy, Michigan
(Address of principal executive offices)

48084-5225
(Zip Code)

Registrant's telephone number, including area code: 248-362-4400

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 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

YES NO

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. The number of shares of common stock outstanding as of November 30, 2007 was 20,452,118.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

HANDLEMAN COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED OCTOBER 27, 2007 AND OCTOBER 28, 2006

(UNAUDITED)

(in thousands of dollars except per share data)

	Three Months (13 weeks) Ended		Six Months (26 weeks) Ended	
	October 27, 2007	October 28, 2006	October 27, 2007	October 28, 2006
Revenues	\$ 315,529	\$ 330,509	\$ 589,713	\$ 570,915
Costs and expenses:				
Direct product costs	(260,726)	(278,750)	(493,221)	(483,564)
Selling, general and administrative expenses	(63,604)	(58,907)	(121,123)	(115,123)
Operating loss	(8,801)	(7,148)	(24,631)	(27,772)
Interest expense	(3,090)	(1,495)	(6,374)	(3,276)
Investment (loss) income	(3,140)	470	(1,691)	476
Loss before income taxes	(15,031)	(8,173)	(32,696)	(30,572)
Income tax (expense) benefit	(846)	(6,064)	(897)	10,392
Net loss	\$ (15,877)	\$ (14,237)	\$ (33,593)	\$ (20,180)
Loss per share:				
Basic	\$ (0.78)	\$ (0.70)	\$ (1.66)	\$ (1.00)
Diluted	\$ (0.78)	\$ (0.70)	\$ (1.66)	\$ (1.00)
Weighted average number of shares outstanding during the period:				
Basic	20,359	20,268	20,286	20,197
Diluted	20,359	20,268	20,286	20,197

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

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HANDLEMAN COMPANY

CONSOLIDATED BALANCE SHEETS

AS OF OCTOBER 27, 2007 and APRIL 28, 2007

(in thousands of dollars except share data)

	October 27, 2007 (Unaudited)	April 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,973	\$ 18,457
Accounts receivable, less allowances of \$14,493 at October 27, 2007 and \$12,797 at April 28, 2007	252,078	236,069
Merchandise inventories	151,954	115,535
Other current assets	35,204	17,713
Total current assets	443,209	387,774
Property and equipment:		
Land, buildings and improvements	13,885	13,885
Display fixtures	29,960	28,821
Computer hardware and software	65,452	66,111
Equipment, furniture and other	58,905	56,863
	168,202	165,680
Less accumulated depreciation	107,667	100,552
	60,535	65,128
Goodwill, net	36,938	36,938
Intangible assets, net	38,849	36,433
Other assets, net	10,942	20,178
Total assets	\$ 590,473	\$ 546,451
LIABILITIES		
Current liabilities:		
Debt	\$ 114,440	\$ 106,897
Accounts payable	218,613	159,444
Accrued and other liabilities	39,619	31,163
Total current liabilities	372,672	297,504
Other liabilities	8,937	9,402
Commitments and contingencies (Note 9)		
Total liabilities	381,609	306,906
SHAREHOLDERS EQUITY		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued	205	203

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Common stock, \$.01 par value; 60,000,000 shares authorized; 20,452,000 and 20,291,000 shares issued and outstanding at October 27, 2007 and April 28, 2007, respectively		
Additional paid-in capital	572	
Accumulated other comprehensive income	21,314	17,414
Retained earnings	186,773	221,928
Total shareholders' equity	208,864	239,545
Total liabilities and shareholders' equity	\$ 590,473	\$ 546,451

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

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HANDLEMAN COMPANY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE SIX-MONTH PERIOD ENDED OCTOBER 27, 2007

(UNAUDITED)

(in thousands of dollars)

Six Months (26 weeks)
Accumulated Other

	Common Stock		Comprehensive Income (Loss)			Retained Earnings	Total Shareholders Equity
	Shares Issued	Amount	Foreign Currency Translation Adjustment	Employee Benefit Related	Additional Paid-in Capital		
April 28, 2007, previously reported	20,291	\$ 203	\$ 22,654	\$ (5,240)	\$	\$ 221,928	\$ 239,545
Cumulative effect of adoption of FIN No. 48						(1,562)	(1,562)
April 28, 2007, restated	20,291	203	22,654	(5,240)		220,366	237,983
Net loss						(33,593)	(33,593)
Adjustment for foreign currency translation, net of tax of \$1,624			4,094				4,094
Employee benefit plan related adjustment, net of tax of \$(109)				(194)			(194)
Comprehensive loss, net of tax							(29,693)
Stock-based compensation:							
Performance shares/units	130	2			513		515
Stock options					(127)		(127)
Restricted stock and other	31				186		186
October 27, 2007	20,452	\$ 205	\$ 26,748	\$ (5,434)	\$ 572	\$ 186,773	\$ 208,864

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

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HANDLEMAN COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED OCTOBER 27, 2007 and OCTOBER 28, 2006

(UNAUDITED)

(in thousands of dollars)

	Six Months (26 weeks) Ended	
	October 27, 2007	October 28, 2006
Cash flows from operating activities:		
Net loss	\$ (33,593)	\$ (20,180)
Adjustments to reconcile net loss to net cash (used by) provided from operating activities:		
Depreciation	8,464	8,095
Amortization of definite-lived intangible assets	3,842	4,612
Recoupment of development costs/licensed rights	3,999	3,021
Impairment of equity investment	3,454	
Gain on sale of investment	(957)	
Loss on disposal of property and equipment	886	243
Unrealized investment income	(215)	(26)
Stock-based compensation	454	2,617
Retirement plans curtailment/settlement charges	260	1,064
Changes in operating assets and liabilities:		
Increase in accounts receivable	(12,680)	(30,383)
Increase in merchandise inventories	(34,090)	(81,146)
Increase in other operating assets	(9,857)	(6,718)
Increase in accounts payable	55,389	139,571
Increase (decrease) in other operating liabilities	9,840	(5,269)
Total adjustments	28,789	35,681
Net cash (used by) provided from operating activities	(4,804)	15,501
Cash flows from investing activities:		
Additions to property and equipment	(3,627)	(10,925)
Software development costs and distribution/license advances	(10,086)	(5,128)
Proceeds from sale of investment	957	
Proceeds from disposition of property and equipment	11	1
Cash investment in REPS LLC		(1,052)
Other equity investments		(1,137)
Net cash used by investing activities	(12,745)	(18,241)