

HANDLEMAN CO /MI/
Form 10-Q
August 31, 2007
Table of Contents

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 July 28, 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 August 24, 2007 was 20,458,118.

Table of Contents

HANDLEMAN COMPANY

INDEX

	PAGE
	NUMBER(S)
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Statements of Operations</u>	1
<u>Consolidated Balance Sheets</u>	2
<u>Consolidated Statement of Shareholders' Equity</u>	3
<u>Consolidated Statements of Cash Flows</u>	4
<u>Notes to Consolidated Financial Statements</u>	5-19
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	20-25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	26-27
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	27
Item 1A. <u>Risk Factors</u>	27
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
Item 3. <u>Defaults Upon Senior Securities</u>	27
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	27
Item 5. <u>Other Information</u>	27
Item 6. <u>Exhibits</u>	28
<u>SIGNATURES</u>	29

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

HANDLEMAN COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE-MONTH PERIODS ENDED JULY 28, 2007 AND JULY 29, 2006

(UNAUDITED)

(in thousands of dollars except per share data)

	Three Months (13 weeks) Ended	
	July 28,	July 29,
	2007	2006
Revenues	\$ 274,184	\$ 240,406
Costs and expenses:		
Direct product costs	(232,495)	(204,814)
Selling, general and administrative expenses	(57,519)	(56,216)
Operating loss	(15,830)	(20,624)
Interest expense	(3,284)	(1,781)
Investment income	1,449	6
Loss before income taxes	(17,665)	(22,399)
Income tax (expense) benefit	(51)	16,456
Net loss	\$ (17,716)	\$ (5,943)
Loss per share:		
Basic	\$ (0.88)	\$ (0.30)
Diluted	\$ (0.88)	\$ (0.30)
Weighted average number of shares outstanding during the period:		
Basic	20,195	20,127
Diluted	20,195	20,127

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

Table of Contents

HANDLEMAN COMPANY

CONSOLIDATED BALANCE SHEETS

AS OF JULY 28, 2007 and APRIL 28, 2007

(in thousands of dollars except share data)

	July 28,	April 28,
	2007	2007
	(Unaudited)	2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,610	\$ 18,457
Accounts receivable, less allowances of \$13,124 at July 28, 2007 and \$12,797 at April 28, 2007	241,506	236,069
Merchandise inventories	119,533	115,535
Other current assets	17,929	17,713
Total current assets	381,578	387,774
Property and equipment:		
Land, buildings and improvements	13,885	13,885
Display fixtures	29,292	28,821
Computer hardware and software	66,329	66,111
Equipment, furniture and other	58,202	56,863
	167,708	165,680
Less accumulated depreciation	105,403	100,552
	62,305	65,128
Goodwill, net	36,938	36,938
Intangible assets, net	38,196	36,433
Other assets, net	19,277	20,178
Total assets	\$ 538,294	\$ 546,451
LIABILITIES		
Current liabilities:		
Debt	\$ 94,200	\$ 106,897
Accounts payable	176,968	159,444
Accrued and other liabilities	32,848	31,163
Total current liabilities	304,016	297,504
Other liabilities	11,345	9,402
Commitments and contingencies (Note 9)		
Total liabilities	315,361	306,906

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SHAREHOLDERS EQUITY

Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued		
Common stock, \$.01 par value; 60,000,000 shares authorized; 20,458,000 and 20,291,000 shares issued and outstanding at July 28, 2007 and April 28, 2007, respectively	205	203
Additional paid-in capital	470	
Accumulated other comprehensive income	19,608	17,414
Retained earnings	202,650	221,928
Total shareholders equity	222,933	239,545
Total liabilities and shareholders equity	\$ 538,294	\$ 546,451

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

Table of Contents

HANDLEMAN COMPANY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE THREE-MONTH PERIOD ENDED JULY 28, 2007

(UNAUDITED)

(in thousands of dollars)

	Common Stock		Three Months (13 weeks) Accumulated Other 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						(17,716)	(17,716)
Adjustment for foreign currency translation			2,388				2,388
Employee benefit plan related adjustment, net of tax of \$(109)				(194)			(194)
Comprehensive loss, net of tax							(15,522)
Stock-based compensation:							
Performance shares/units	130	2			364		366
Stock options					(66)		(66)
Restricted stock and other	37				172		172
July 28, 2007	20,458	\$ 205	\$ 25,042	\$ (5,434)	\$ 470	\$ 202,650	\$ 222,933

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

Table of Contents

HANDLEMAN COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE-MONTH PERIODS ENDED JULY 28, 2007 and JULY 29, 2006

(UNAUDITED)

(in thousands of dollars)

	Three Months (13 weeks) Ended	
	July 28,	July 29,
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (17,716)	\$ (5,943)
Adjustments to reconcile net loss to net cash provided from operating activities:		
Depreciation	4,483	4,088
Amortization of definite-lived intangible assets	1,921	2,306
Recoupment of development costs/licensed rights	1,200	624
Unrealized investment (income) loss	(215)	241
Loss on disposal of property and equipment	39	84
Stock-based compensation	352	1,057
Retirement plans curtailment/settlement charges	260	1,064
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(3,841)	42,885
Increase in merchandise inventories	(3,272)	(18,817)
Decrease (increase) in other operating assets	2,365	(13,821)
Increase in accounts payable	16,158	10,130
Increase (decrease) in other operating liabilities	7,101	(10,057)
Total adjustments	26,551	19,784
Net cash provided from operating activities	8,835	13,841
Cash flows from investing activities:		
Additions to property and equipment	(1,215)	(4,280)
Software development costs and licensed rights	(4,799)	(1,923)
Proceeds from disposition of property and equipment		8
Cash investment in REPS LLC		(1,052)
Net cash used by investing activities	(6,014)	(7,247)
Cash flows from financing activities:		
Issuances of debt	836,911	1,265,238
Repayments of debt	(849,620)	(1,277,798)
Financing related fees	(6,834)	
Checks issued in excess of cash balances		6,091
Cash dividends		(1,601)
Cash proceeds from stock-based compensation plans	120	76
Net cash used by financing activities	(19,423)	(7,994)

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Effect of exchange rate changes on cash	755	97
Net decrease in cash and cash equivalents	(15,847)	(1,303)
Cash and cash equivalents at beginning of period	18,457	10,346
Cash and cash equivalents at end of period	\$ 2,610	\$ 9,043

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

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

In the opinion of management, the accompanying Consolidated Balance Sheets and Consolidated Statements of Operations, Shareholders' Equity and Cash Flows contain all adjustments, including normal recurring adjustments, necessary to present fairly the financial position of the Company as of July 28, 2007, and the results of operations and changes in cash flows for the three months then ended. Because of the seasonal nature of the Company's business, revenues and earnings results for the three months ended July 28, 2007 are not necessarily indicative of what the results will be for the full year. The Consolidated Balance Sheet as of April 28, 2007 included in this Form 10-Q was derived from the audited consolidated financial statements of the Company included in the Company's fiscal year 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Reference should be made to the Company's Form 10-K for the year ended April 28, 2007, including the discussion of the Company's critical accounting policies. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

2. New Accounting Pronouncements

SFAS No. 157