

HANDLEMAN CO /MI/
Form 10-Q
December 06, 2006
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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 28, 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 1-7923

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 December 1, 2006 was 20,286,740.

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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 28, 2006 AND OCTOBER 29, 2005

(UNAUDITED)

(in thousands of dollars except per share data)

	Three Months (13 weeks) Ended		Six Months (26 weeks) Ended	
	October 28, 2006	October 29, 2005	October 28, 2006	October 29, 2005
Revenues	\$ 330,509	\$ 302,246	\$ 570,915	\$ 542,648
Costs and expenses:				
Direct product costs	(278,750)	(248,281)	(483,564)	(448,003)
Selling, general and administrative expenses	(58,907)	(47,424)	(115,123)	(94,853)
Operating (loss) income	(7,148)	6,541	(27,772)	(208)
Interest expense	(1,495)	(220)	(3,276)	(248)
Investment income	470	4,005	476	5,070
(Loss) income from continuing operations before income taxes	(8,173)	10,326	(30,572)	4,614
Income tax (expense) benefit	(6,064)	(190)	10,392	1,874
(Loss) income from continuing operations	(14,237)	10,136	(20,180)	6,488
Discontinued operations (Note 4):				
Loss from operations of discontinued subsidiary companies (including loss on disposal of \$563 for the three and six-month periods ended October 29, 2005)		(563)		(563)
Income tax benefit		201		201
Loss from discontinued operations		(362)		(362)
Net (loss) income	\$ (14,237)	\$ 9,774	\$ (20,180)	\$ 6,126
(Loss) income per share:				
Continuing operations - basic	\$ (0.70)	\$ 0.48	\$ (1.00)	\$ 0.31
Continuing operations - diluted	\$ (0.70)	\$ 0.48	\$ (1.00)	\$ 0.31
Discontinued operations - basic	\$	\$ (0.02)	\$	\$ (0.02)
Discontinued operations - diluted	\$	\$ (0.02)	\$	\$ (0.02)
Net income - basic	\$ (0.70)	\$ 0.46	\$ (1.00)	\$ 0.29

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Net income - diluted	\$	(0.70)	\$	0.46	\$	(1.00)	\$	0.29
Weighted average number of shares outstanding during the period:								
Basic		20,268		21,027		20,197		21,240
Diluted		20,268		21,142		20,197		21,405

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

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HANDLEMAN COMPANY

CONSOLIDATED BALANCE SHEETS

AS OF OCTOBER 28, 2006 and APRIL 29, 2006

(in thousands of dollars except share data)

	October 28, 2006 (Unaudited)	April 29, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,875	\$ 10,346
Accounts receivable, less allowances of \$16,309 at October 28, 2006 and \$13,658 at April 29, 2006	291,066	257,942
Merchandise inventories	211,395	128,844
Other current assets	17,390	9,898
Total current assets	536,726	407,030
Property and equipment:		
Land, buildings and improvements	13,885	13,896
Display fixtures	29,932	29,470
Computer hardware and software	63,912	62,632
Equipment, furniture and other	43,502	35,964
	151,231	141,962
Less accumulated depreciation	94,346	87,863
	56,885	54,099
Goodwill, net	36,938	36,938
Intangible assets, net	41,003	43,338
Other assets, net	32,586	33,626
Total assets	\$ 704,138	\$ 575,031
LIABILITIES		
Current liabilities:		
Debt, current portion	\$ 96,560	\$ 3,960
Notes payable		1,000
Accounts payable	289,074	144,401
Accrued and other liabilities	23,943	29,326
Total current liabilities	409,577	178,687
Debt, non-current		83,600
Other liabilities	15,901	15,755
Commitments and contingencies (Note 11)		
Total liabilities	425,478	278,042
SHAREHOLDERS' EQUITY		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued		

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Common stock, \$.01 par value; 60,000,000 shares authorized; 20,287,000 and 19,990,000 shares issued at October 28, 2006 and April 29, 2006, respectively	203	200
Accumulated other comprehensive income	18,963	16,067
Unearned compensation		(4,816)
Retained earnings	259,494	285,538
Total shareholders' equity	278,660	296,989
Total liabilities and shareholders' equity	\$ 704,138	\$ 575,031

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 28, 2006

(UNAUDITED)

(in thousands of dollars)

	Six Months (26 weeks)								Total Shareholders Equity
	Common Stock		Accumulated Other Comprehensive Income (Loss)			Additional Paid-in Capital	Retained Earnings		
	Shares Issued	Amount	Foreign Currency Adjustment	Minimum Pension Liability	Interest Rate Swap				
April 29, 2006	19,990	\$ 200	\$ 16,131	\$ (248)	\$ 184	\$ (4,816)		\$ 285,538	\$ 296,989
Net loss								(20,180)	(20,180)
Adjustment for foreign currency translation			2,953						2,953
Minimum pension liability adjustment, net of tax of \$32				59					59
Interest rate swap, net of tax of \$(64)					(116)				(116)
Comprehensive loss, net of tax									(17,284)
Stock-based compensation:									
Performance shares/units	214	2				3,484	(2,088)		1,398
Stock options						812	(439)		373
Restricted stock and other	83	1				520	(114)		407
Reclassification of additional paid-in capital							2,641	(2,641)	
Cash dividends, \$0.16 per share								(3,223)	(3,223)
October 28, 2006	20,287	\$ 203	\$ 19,084	\$ (189)	\$ 68	\$	\$	\$ 259,494	\$ 278,660