ARISTOTLE CORP
Form 10-Q
November 10, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON NOVEMBER 10, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

[ ] 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 0-14669

THE ARISTOTLE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	06-1165854
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

06902

(ZIP CODE)

(203) 358-8000

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether 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 [X] No [ ]

Indicate by check mark whether registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

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

Yes [ ] No [X]

As of November 10, 2005, 17,194,327 shares of Common Stock, 1,100,122 shares of Series I Preferred Stock and 10,984,971 shares of Series J Preferred Stock were outstanding.

THE ARISTOTLE CORPORATION

INDEX OF INFORMATION CONTAINED IN FORM 10-Q FOR THE

QUARTERLY PERIOD ENDED SEPTEMBER 30, 2005

PART I

ITEM 1. FINANCIAL INFORMATION

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

Assets		**September 30, 2005**	**December 31, 2004**	**September 30, 2004**
		(unaudited)		**(unaudited)**
Current assets:				
Cash and cash equivalents	$	3,011	2,143	4,219
Investments		6,019	4,058	1,016
Accounts receivable, net		25,013	12,592	23,070
Inventories		34,963	33,356	33,348
Prepaid expenses and other		5,255	6,665	3,912
Refundable income taxes		-	49	-
Deferred income taxes		9,825	9,825	9,292
Total current assets		84,086	68,688	74,857
Property, plant and equipment, net		20,421	17,405	17,256
Goodwill		13,818	13,707	13,530
Deferred income taxes		3,969	10,594	10,952
Other assets		416	511	526
Total assets	$	122,710	110,905	117,121

Liabilities and Stockholders Equity				
Current liabilities:				
Current installments of long-term debt	$	119	114	105
Trade accounts payable		9,436	7,192	9,320
Accrued expenses		4,747	5,833	5,981
Accrued dividends payable		-	2,158	-
Income taxes		385	-	245
Total current liabilities		14,687	15,297	15,651
Long-term debt, less current installments		28,839	24,948	32,880
Stockholders equity:				
Preferred stock, Series I, convertible, voting, 11% cumulative, $6.00 stated value; $.01 par value; 2,400,000 shares authorized, 1,100,122, 1,096,622 and 1,096,622 shares issued and outstanding at September 30, 2005, December 31, 2004 and September 30, 2004, respectively		6,601	6,580	6,580
Preferred stock, Series J, non-voting, 12% cumulative, $6.00 stated value; $.01 par value; 11,200,000 shares authorized, 10,984,971 shares issued and outstanding		65,760	65,760	65,760
Common stock, $.01 par value; 20,000,000 shares authorized, 17,170,329, 17,142,779 and 17,129,354 shares issued and outstanding at September 30, 2005, December 31, 2004 and September 30, 2004, respectively		172	171	171
Additional paid-in capital		2,773	2,310	1,288
Retained earnings (accumulated deficit)		3,368	(4,331)	(5,315)
Accumulated other comprehensive earnings		510	170	106
Total stockholders equity		79,184	70,660	68,590
Total liabilities and stockholders equity	$	122,710	110,905	117,121

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

1

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share and per share data)

(Unaudited)

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2005	**2004**	**2005**	**2004**
Net sales	$	58,626	55,368	150,559	139,000
Cost of sales		37,222	35,199	93,845	86,811
Gross profit		21,404	20,169	56,714	52,189
Selling and administrative expense		11,060	10,885	32,848	31,170
Earnings from operations		10,344	9,284	23,866	21,019
Other expense (income):					
Interest expense		369	292	1,022	894
Interest income		(11)	(1)	(23)	(2)
Other, net		(116)	(40)	(259)	(18)
		242	251	740	874
Earnings before income taxes		10,102	9,033	23,126	20,145
Income taxes:					
Current		1,064	1,004	2,286	2,038
Deferred		2,846	411	6,665	3,686
		3,910	1,415	8,951	5,724
Net earnings		6,192	7,618	14,175	14,421
Preferred dividends		2,160	2,158	6,476	6,479

Net earnings applicable to common stockholders	$	4,032	5,460	7,699	7,942
Earnings per common share:					
Basic	$	.23	.32	.45	.46
Diluted	$	.23	.32	.44	.46
Weighted average common shares outstanding:					
Basic		17,164,155	17,120,573	17,154,462	17,110,431
Diluted		17,422,089	17,330,679	17,404,363	17,298,250

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Nine Months Ended September 30, 2005	2004
Cash flows from operating activities:		
Net earnings	$ 14,175	14,421
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,362	1,348
Stock option compensation	359	369
(Gain) loss on sale of property, plant and equipment	(2)	7
Earnings in equity method investment	(261)	(16)
Deferred income taxes	6,665	3,686
Change in assets and liabilities:		
Accounts receivable	(12,421)	(11,189)
Inventories	(1,607)	(3,210)
Prepaid expenses and other	1,410	1,686
Other assets	(16)	(7)
Trade accounts payable	2,244	3,238
Accrued expenses and other liabilities	(465)	2,241
Net cash provided by operating activities	11,443	12,574
Cash flows from investing activities:		
Purchases of property, plant and equipment	(4,234)	(1,169)
Proceeds from the sale of property, plant and equipment	5	2
Purchases of investments	(1,700)	(1,000)

Cash paid for acquisitions, net of cash acquired		-	(3,729)
Net cash used in investing activities		(5,929)	(5,896)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt		10,907	9,500
Principal payments on long-term debt		(7,011)	(9,104)
Proceeds from issuance of stock under stock option plans		92	212
Preferred dividends paid		(8,634)	(8,633)
Net cash used in financing activities		(4,646)	(8,025)
Net increase (decrease) in cash and cash equivalents		868	(1,347)
Cash and cash equivalents at beginning of period		2,143	5,566
Cash and cash equivalents at end of period	$	3,011	4,219

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

3

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

1.

Organization

The Aristotle Corporation (Aristotle) and its subsidiaries (together with Aristotle, the Company), founded in 1986, and headquartered in Stamford, CT, is a leading manufacturer and global distributor of educational, health, medical technology and agricultural products. A selection of over 80,000 items is offered, primarily through more than 45 separate catalogs carrying the brand of Nasco (founded in 1941), as well as those bearing the brands of Life/Form®, Whirl-Pak®, Simulaids, Triarco, Spectrum Educational Supplies, Hubbard Scientific, Scott Resources, Haan Crafts, To-Sew, CPR Prompt®, Ginsberg Scientific and Summit Learning. Products include educational materials and supplies for substantially all K-12 curricula, molded plastics, biological materials, medical simulators and items for the agricultural, senior care and food industries. In addition, the Company offers simulation kits and manikins used for training in cardiopulmonary resuscitation and the fire and emergency rescue and patient care fields. The Company also markets proprietary product lines that provide exclusive distribution rights throughout all of its catalogs. The proprietary product lines are developed internally through the Company s research and development efforts and acquired externally by licensing rights from third parties. The Company s inventories primarily consist of finished goods and catalog merchandise.

Geneve Corporation (Geneve), a privately-held diversified financial holding company, and an affiliated entity held greater than 90% of Aristotle s voting power at September 30, 2005 and 2004.

2.

Financial Statement Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position as of September 30, 2005 and 2004, results of operations for the three and nine months ended September 30, 2005 and 2004 and cash flows for the nine months ended September 30, 2005 and 2004, as applicable, have been made. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2004.

3.

Principles of Consolidation

All significant intercompany balances and transactions have been eliminated in consolidation.

4.

Recently Issued Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board (the FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 clarifies that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The adoption of FIN 47 is not expected to have a material impact on the Company s financial statements.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

In December 2004, the FASB issued a revised Statement of Financial Accounting Standards (SFAS) No. 123, *Share-Based Payment* (SFAS 123R), which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services and incurs liabilities in exchange for goods or services. SFAS 123R requires a company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options, based on the grant-date fair value of the award and to recognize these awards as an expense in the statement of earnings over the requisite service period. The grant-date fair value of employee stock options and similar instruments will be estimated using option-pricing models adjusted for unique characteristics of those instruments unless observable market prices for the same or similar instruments are available. SFAS 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), which was issued in October 1995. SFAS 123R is effective for all awards granted, modified, repurchased, or cancelled after the beginning of the first annual reporting period beginning after June 15, 2005. SFAS 123R provides for methods of applying this statement to existing awards during the transitional period. The adoption of SFAS 123R is not expected to have a material impact on the Company s financial statements.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs: An Amendment of ARB No. 43* (SFAS 151), which clarifies that abnormal costs of idle facility expense, freight, handling costs and wasted material should be recognized as current period expenses. SFAS 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 is not expected to have a material impact on the Company s financial statements.

In December 2003, the FASB issued a revised Interpretation No. 46, *Consolidation of Variable Interest Entities* (Interpretation 46R), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. Interpretation 46R replaces Interpretation No. 46, *Consolidation of Variable Interest Entities*, which was issued in January 2003. The Company was required to apply Interpretation 46R to interests in variable interest entities (VIE) created after December 31, 2003. For variable interests in a VIE created before January 1, 2004, the interpretation was applied beginning on January 1, 2005. If determining the carrying amounts is not practicable, fair value at the date Interpretation 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The adoption of Interpretation 46R did not have a material impact on the Company s financial statements for the three and nine months ended September 30, 2005.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

5.

Business Combinations

On September 17, 2004, Aristotle purchased certain assets of the science product line of Ginsberg Scientific Company and GSC International, Inc. (collectively referred to as Ginsberg) for $1.8 million. Ginsberg is a manufacturer and distributor of products and kits designed to demonstrate certain science concepts for students in grades 5-12. The Ginsberg offerings complement the science product lines manufactured and distributed by the Company in the educational segment. The results of Ginsberg s operations have been included in the Company s consolidated financial statements since the date of such acquisition. The purchase price allocation resulted in goodwill of $1.0 million attributable to the educational segment.

On August 11, 2004, Aristotle purchased certain assets of the CPR Prompt product line for $1.9 million. The CPR Prompt product line is comprised of a number of products, primarily training manikins, used in the instruction of cardiopulmonary resuscitation. The CPR Prompt product line complements product lines manufactured and distributed by the Company in the educational segment. The results of CPR Prompt s operations have been included in the Company s consolidated financial statements since the date of such acquisition. The purchase price allocation resulted in goodwill of $1.0 million attributable to the educational segment.

6.

Earnings per Common Share

Basic earnings per common share is calculated by dividing net earnings applicable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings applicable to common stockholders by the weighted average number of common shares outstanding during the period and including each share that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during the period.

Shares of Common Stock available for issue upon conversion of the 1,100,122 and 1,096,622 shares of Series I Preferred Stock outstanding at September 30, 2005 and 2004, respectively, were not dilutive and, therefore, have not been included in the computations of diluted earnings per common share amounts for the periods then ended.

7.

Investments

Prior to February 2005, the Company invested in a limited partnership, the general partner of which is an affiliate of the Company. In February 2005, the balance of the investment, approximately $4.1 million, was transferred to another limited partnership, the general partner of which is an affiliate of the Company. The assets of this limited partnership are managed exclusively by a non-affiliate of the Company. The purpose of the limited partnership in which the Company is currently invested is to manage a diversified investment portfolio. No additional amounts were invested during the three months ended September 30, 2005. During the nine months ended September 30, 2005, the Company invested an additional $1.7 million. The Company invested $1.0 million during the three and nine months ended September 30, 2004. The Company s investment is accounted for under the equity method of accounting, which equates the carrying value of the investment to the Company s equity in the partnership s underlying book value. The Company s equity earnings or loss is credited or charged, as appropriate, to other income within the Condensed Consolidated Statements of Earnings. For the three and nine months ended September 30, 2005, equity earnings amounted to $.1 million and $.3 million, respectively. Equity earnings amounted to less than $.1 million for each of the three and nine months ended September 30, 2004.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

8.

Stockholders   Equity and Comprehensive Earnings

Changes in stockholders   equity for the nine months ended September 30 are as follows (in thousands):

		2005	2004
Balance at January 1	$	70,660	59,844
Net earnings		14,175	14,421
Exercise of stock options, including related tax benefit		126	227
Stock option compensation		359	369
Other comprehensive earnings:			
Foreign currency translation adjustment		340	208
Preferred dividends			