

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-03-16** | Period of Report: **1994-01-31**  
SEC Accession No. **0000950131-94-000333**

([HTML Version](#) on [secdatabase.com](#))

FILER

**HANDLEMAN CO /MI/**

CIK: **314727** | IRS No.: **381242806** | State of Incorpor.: **MI** | Fiscal Year End: **0429**  
Type: **10-Q** | Act: **34** | File No.: **001-07923** | Film No.: **94516196**  
SIC: **5099** Durable goods, nec

Business Address  
500 KIRTS BLVD  
PO BOX 7045  
TROY MI 48084-4142  
3133624400

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 3rd quarter ended January 31, 1994

Commission File Number 1-7923

HANDLEMAN COMPANY

-----  
 (Exact name of registrant as specified in its charter)

MICHIGAN

38-1242806

-----  
 (State or other jurisdiction of  
 incorporation or organization)

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

500 KIRTS BOULEVARD,  
 TROY, MICHIGAN

48084-4142

Area Code 810 362-4400

-----  
 (Address of principal  
 executive offices)

-----  
 (Zip code)

-----  
 (Registrant's telephone  
 number)

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 X NO  
 -----

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	DATE	SHARES OUTSTANDING
----- Common Stock - \$.01 Par Value	----- March 4, 1994	----- 33,419,416

HANDLEMAN COMPANY

INDEX

	PAGE NUMBER
	-----
PART I - FINANCIAL INFORMATION	
Consolidated Statement of Income.....	1
Consolidated Balance Sheet.....	2
Consolidated Statement of Shareholders' Equity.....	3
Consolidated Statement of Cash Flows.....	4
Notes to Consolidated Financial Statements.....	5
Management's Discussion and Analysis of Operations.....	6 - 7
PART II - OTHER INFORMATION AND SIGNATURES.....	8

HANDLEMAN COMPANY

CONSOLIDATED STATEMENT OF INCOME  
(UNAUDITED)  
(amounts in thousands except per share data)

	Three Months Ended		Nine Months Ended	
	January 31, 1994	January 31, 1993	January 31, 1994	January 31, 1993
<S>	<C>	<C>	<C>	<C>
Net sales .....	\$300,027	\$335,656	\$816,487	\$869,820
Costs and expenses:				
Direct product costs .....	231,411	254,138	625,987	657,096
Selling, general and administrative expenses .....	48,677	54,630	142,357	146,777
Amortization of acquisition costs .....	1,857	2,218	5,762	6,319
Interest expense, net .....	1,339	1,161	4,496	5,150
Income before income taxes .....	16,743	23,509	37,885	54,478
Income taxes .....	6,659	9,185	15,116	21,262
Net income .....	\$ 10,084	\$ 14,324	\$ 22,769	\$ 33,216
Earnings per average common share outstanding during the period .....	\$ 0.30	\$ 0.43	\$ 0.68	\$ 1.00
Average number of shares outstanding during the period .....	33,415	33,206	33,381	33,232
Dividends per share .....	\$ 0.11	\$ 0.10	\$ 0.33	\$ 0.30

</TABLE>

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

-1-

HANDLEMAN COMPANY  
CONSOLIDATED BALANCE SHEET  
(UNAUDITED)  
(amounts in thousands except share data)

	January 31, 1994	May 1, 1993
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$23,264	\$57,306
Accounts receivable, less allowance of \$19,258 at January 31, 1994 and \$21,184 at May 1, 1993 for gross profit impact of future returns .....	239,681	200,547
Merchandise inventories .....	251,911	238,310
Other current assets .....	4,314	2,231
Total current assets .....	519,170	498,394
Property and equipment:		
Land .....	7,966	8,044
Buildings and improvements .....	43,955	43,417
Display fixtures .....	87,360	76,683
Equipment, furniture and other .....	41,379	38,840
Leasehold improvements .....	2,798	2,848
Less accumulated depreciation and amortization .....	183,458	169,832
Less accumulated depreciation and amortization .....	70,082	58,432
Total assets, net of allowances .....	113,376	111,400
Other assets, net of allowances .....	53,160	46,090
Total assets .....	\$685,706	\$655,884
LIABILITIES		
Current liabilities:		
Accounts payable .....	\$212,939	\$200,394
Debt, current .....	32,200	17,860
Income taxes, currently payable .....	2,529	7,124
Accrued and other liabilities .....	35,873	31,153
Total current liabilities .....	283,541	256,531
Debt, noncurrent .....	97,270	105,702

Deferred income taxes .....	4,948	4,951
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; 33,415,140 and 33,218,273 shares issued at January 31, 1994 and May 1, 1993, respectively .....	334	332
Paid-in capital .....	32,015	29,136
Foreign currency translation adjustment and other .....	(4,180)	(804)
Retained earnings .....	271,778	260,036
	-----	-----
Total shareholders' equity .....	299,947	288,700
	-----	-----
Total liabilities and shareholders' equity.....	\$685,706	\$655,884
	=====	=====

</TABLE>

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

-2-

HANDLEMAN COMPANY  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(UNAUDITED)  
(amounts in thousands except per share data)

<TABLE>  
<CAPTION>

	Nine Months Ended January 31, 1994					
	Common Stock			Foreign Currency Translation	Retained	Total
	Shares Issued	Amount	Paid-in Capital	Adjustment and Other	Earnings	Shareholders' Equity
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
May 1, 1993 . . . . .	33,218	\$332	\$29,136	(\$804)	\$260,036	\$288,700
Equity adjustment for foreign currency translation . . . . .				(1,108)		(1,108)
Net income . . . . .					22,769	22,769
Common stock issued for employee benefit plans . . . . .	197	2	2,879	(2,268)		613
Cash dividends, \$.33 per share . . . . .					(11,027)	(11,027)
	-----	-----	-----	-----	-----	-----
January 31, 1994 . . .	33,415	\$334	\$32,015	(\$4,180)	\$271,778	\$299,947
	=====	=====	=====	=====	=====	=====

</TABLE>

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

-3-

HANDLEMAN COMPANY  
CONSOLIDATED STATEMENT OF CASH FLOWS  
(UNAUDITED)  
(amounts in thousands)

<TABLE>  
<CAPTION>

	Nine Months Ended	
	January 31, 1994	January 31, 1993
<S>	<C>	<C>
Cash flows from operating activities:		
Net income .....	\$22,769	\$33,216
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation .....	17,940	16,164
Amortization .....	5,762	6,319
(Increase) decrease in assets:		
Accounts receivable .....	(39,134)	(11,989)
Merchandise inventories .....	(13,601)	(15,408)
Other current assets .....	(2,083)	(2,522)
Other assets, net of allowances .....	3,847	2,167
Increase (decrease) in liabilities:		
Accounts payable .....	12,545	15,453
Income taxes, currently payable .....	(4,595)	(1,390)
Deferred income taxes .....	(3)	1,403
Accrued and other liabilities .....	5,020	1,675
Total adjustments .....	(14,302)	11,872
Net cash provided from operating activities .....	8,467	45,088
Cash flows from investing activities:		
Additions to property and equipment .....	(23,079)	(22,919)
Retirements of property and equipment .....	1,221	4,952
Video license advances .....	(15,037)	(1,957)
Net cash used by investing activities .....	(36,895)	(19,924)
Cash flows from financing activities:		
Issuances of debt .....	659,390	471,600
Repayments of debt .....	(653,482)	(512,857)
Cash dividends .....	(11,027)	(9,952)
Other, net .....	(495)	(802)
Net cash used by financing activities .....	(5,614)	(52,011)
Net decrease in cash and cash equivalents .....	(34,042)	(26,847)
Cash and cash equivalents at beginning of period .....	57,306	34,775
Cash and cash equivalents at end of period .....	\$23,264	\$7,928

</TABLE>

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

and consolidated statements of income, shareholders' equity and cash flows contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of the Company as of January 31, 1994, and the results of operations and changes in cash flows for the nine months then ended. Because of the seasonal nature of the Company's business, sales and earnings results for the nine months ended January 31, 1994, are not necessarily indicative of what the results will be for the full year. The consolidated balance sheet as of May 1, 1993 is derived from the audited consolidated financial statements of the Company included in the Company's 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Reference should also be made to the complete statements included in the Company's Form 10-K.

2. Certain prior period amounts have been reclassified to conform with presentations adopted by the Company in fiscal 1994.

-5-

#### HANDLEMAN COMPANY

##### MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

Net sales for the third quarter ended January 31, 1994 were \$300.0 million, compared to \$335.7 million for the third quarter ended January 31, 1993. Net income for the third quarter of fiscal 1994 was \$10.1 million (or \$.30 per share), compared to \$14.3 million (or \$.43 per share) for the third quarter last year.

For the first nine months of fiscal 1994, net sales were \$816.5 million, compared to \$869.8 million for the same period last year. Net income for the first nine months of this year was \$22.8 million (or \$.68 per share), compared to \$33.2 million (or \$1.00 per share) for the same period last year.

Music sales during the third quarter this year were \$161.1 million, compared to \$195.8 million for the third quarter last year, a decrease of 18%. The Company attributes the decline in sales of music product to the impact of customer fiscal year-end inventory concerns, which resulted in reduced sales volume and increased merchandise returns in January 1994. Music sales for the first nine months this year were \$454.2 million, compared to \$504.9 million for the same period last year.

For the third quarter of fiscal 1994, prerecorded video sales were \$103.3 million, compared to \$103.5 million for the same period a year-ago. For the first nine months of fiscal 1994, video sales were \$276.9 million, compared to \$279.1 million for the same period last year.

Handleman Company's book sales for the third quarter this year were \$21.2 million, compared to \$18.2 million for the third quarter last year, an increase of 16%. The increase in book sales was primarily attributable to increased sales to the Company's major book customer. Book sales for the first nine months of this year were \$51.0 million, compared to \$50.2 million for the same period last year.

Home computer software sales for the third quarter of fiscal year 1994 were

\$14.4 million, compared to \$18.2 million for the third quarter last year, a decrease of 21%. The decrease in home computer software sales was primarily due to the loss of two customers which switched to suppliers that are not providing in-store service. Home computer software sales for the first nine months of fiscal 1994 were \$34.4 million, compared to \$35.6 million for the first nine months of fiscal 1993.

-6-

Gross profit margin for the third quarter this year was 22.9%, compared to 24.3% for the third quarter last year. The primary reason for the decrease in the gross profit margin percentage was the restricting by customers of music reorder shipments to top selling items. These better selling titles carry lower gross profit margins since they are heavily discounted. These restrictions also resulted in a decrease in sales of higher margin budget music product, negatively impacting the overall gross profit margin. For the first nine months this year the gross profit margin was 23.3%, compared to 24.5% for the comparable period last year.

Selling, general and administrative expenses in the third quarter this year were \$48.7 million or 16.2% of net sales, compared with \$54.6 million or 16.3% of net sales for the third quarter last year. The primary reason for the decline in selling, general and administrative expenses was the lower sales level. For the first nine months this year, selling, general and administrative expenses were \$142.4 million or 17.4% of net sales, compared to \$146.8 million or 16.9% of net sales for the same period last year.

Interest expense, net of interest income, for the third quarter this year was \$1.3 million, compared to \$1.2 million for the third quarter last year. This increase was substantially related to lower interest earnings which primarily resulted from a lower rate of return on invested funds. Interest expense, net of interest income, for the first nine months of fiscal 1994 was \$4.5 million, compared to \$5.2 million for the comparable period last year.

Accounts receivable, as of January 31, 1994 were \$239.7 million, compared to \$200.5 million as of May 1, 1993. The increase was primarily due to the seasonal nature of the Company's business. The Company's third quarter includes a portion of the sales impact of the Christmas selling season. The increase in other assets, net of allowances, primarily relates to video license advances. The increase in debt, current, results from the reclassification to current liabilities of certain notes due on October 1, 1994.

Customer concerns about overall store inventory levels will continue to have a dampening effect on the Company's sales in the fourth quarter of fiscal 1994. The Company is exploring opportunities to create additional promotions in its product lines to offset a forecasted sales decline.

Management's Discussion and Analysis of Operations included in the Company's Form 10-Q's for the first quarter ended July 31, 1993 and the second quarter ended October 30, 1993 provide additional discussion regarding sales and earnings results for the Company's first and second quarters of fiscal 1994, and are incorporated herein by reference.

-7-

## PART II - OTHER INFORMATION

### Item 6. Exhibits or Reports on Form 8-K

No reports on Form 8-K were filed during the quarter.

SIGNATURES: Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HANDLEMAN COMPANY

DATE: March 11, 1994

BY: /s/ Stephen Strome

-----  
STEPHEN STROME  
President and

DATE: March 11, 1994  
-----

BY: /s/ Richard J. Morris  
-----

RICHARD J. MORRIS  
Vice President/Finance-  
Chief Financial Officer and  
Secretary