SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1999-03-26** | Period of Report: **1998-07-04**
SEC Accession No. 0000927016-99-001130

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LEARNING CO INC

CIK:**719612**| IRS No.: **942562108** | State of Incorp.:**DE** | Fiscal Year End: **0104**
Type: **10-Q/A** | Act: **34** | File No.: **001-12375** | Film No.: **99573434**
SIC: **7372** Prepackaged software

Mailing Address
ONE ATHENAEUM ST
CAMBRIDGE MA 02142

Business Address
ONE ATHENAEUM ST
CAMBRIDGE MA 02142
6174941200

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A

AMENDMENT NO. 1 TO QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 4, 1998

Commission File Number 1-12375

The Learning Company, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	94-2562108
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

One Athenaeum Street
Cambridge, Massachusetts 02142
(Address of Principal Executive Offices)

(617) 494-1200
(Registrant's Telephone Number, Including Area Code)

Indicate by check 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 the past 90 days.

Yes X No ___________

As of August 3, 1998, there were 65,522,758 outstanding shares of the issuer's common stock, par value $.01 per share.

Restatement of Financial Statements and Changes to Certain Information

The undersigned registrant hereby amends in its entirety Part I of its Quarterly Report on Form 10-Q for the quarterly period ended July 4, 1998.

In March 1998, The Learning Company, Inc. (the "Company") acquired Mindscape, Inc. and certain affiliated companies ("Mindscape") for approximately $152 million in a business combination accounted for as a purchase. The Company allocated $103 million of the purchase price to in-process technology. The Company believes that the amount recorded as an in-process technology charge at the date of its acquisition was measured in a manner consistent with appraisal practices utilized at the time of the acquisition. Subsequent to the acquisition, in a letter dated September 9, 1998 to the American Institute of Certified Public Accountants, the Chief Accountant of the Securities and Exchange Commission (the "SEC") reiterated the views of the staff of the SEC (the "Staff") on certain appraisal practices employed in the determination of the fair value of the in-process technology and other intangible assets.

The Company has had discussions with the Staff concerning the application of the methodology to the valuation of the in-complete technology and other intangible assets as detailed in the September 9, 1998 letter from the Chief Accountant of the SEC, and as a result of these discussions, the Company has implemented the methodology. The Company has restated its previously issued results to reflect the discussions with the Staff and to apply the appropriate guidance and policies. The purchase price of Mindscape has been allocated by the Company based upon the application of the recent guidance and, accordingly, the financial statements in this Quarterly Report on Form 10-Q/A have been restated. After applying the appropriate guidance and policy, the allocation of the Mindscape purchase price was changed for in-process technology from $103,000,000 to $40,000,000; for complete and core technology from $13,000,000 to $22,000,000; and for brands and trade names from $30,000,000 to $38,000,000,

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resulting in a change to goodwill from $9,854,000 to $55,854,000.

The financial statements included in this Quarterly Report on Form 10-Q/A have also been restated to reflect the acquisition Broderbund Software, Inc. which occurred on August 31, 1998 and which has been accounted for using the pooling-of-interests method of accounting. This Form 10-Q/A contains related financial information and disclosures as of and for the three month and six month periods ended July 4, 1998. See Note 2 to the Condensed Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

THE LEARNING COMPANY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

<TABLE>
<CAPTION>

<S>	June 30, 1998 (unaudited) (as restated) <C>	December 31, 1997 <C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$221,839	$188,956
Accounts receivable (less allowances for returns of $36,611 and $47,643, respectively)	112,146	161,927
Inventories	43,737	39,382
Other current assets	50,626	35,863
	428,348	426,128
Intangible assets, net	230,328	145,848
Other long-term assets	61,776	51,798
	$720,452	$623,774
LIABILITIES & STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities	$206,925	$220,192
LONG-TERM OBLIGATIONS:		
Long-term debt	190,955	294,356
Accrued and deferred income taxes	29,747	75,167
Other long-term obligations	5,668	8,069
	226,370	377,592
STOCKHOLDERS' EQUITY	287,157	25,990
	$720,452	$623,774

</TABLE>

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

THE LEARNING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)
(unaudited)

<TABLE>
<CAPTION>

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
	(as restated)		(as restated)	
<S>	<C>	<C>	<C>	<C>

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REVENUES	$ 171,983	$ 128,599	$ 351,319	$ 259,795
COSTS AND EXPENSES:				
Costs of production	62,626	38,687	122,028	77,965
Sales and marketing	60,756	32,981	108,694	65,060
General and administrative	16,936	11,592	29,536	23,779
Development and software costs	25,041	20,672	47,862	40,950
Amortization, merger and other charges	63,201	121,645	160,318	254,658
	228,560	225,577	468,438	462,412
OPERATING LOSS	(56,577)	(96,978)	(117,119)	(202,617)
INTEREST INCOME (EXPENSE), net	1,579	(3,560)	(2,791)	(7,557)
LOSS BEFORE TAXES	(54,998)	(100,538)	(119,910)	(210,174)
PROVISION FOR INCOME TAXES:	--	(2,918)	--	4,609
NET LOSS	$ (54,998)	$ (97,620)	$ (119,910)	$ (214,783)
NET LOSS PER SHARE-Basic and diluted	$(0.72)	$(1.49)	$(1.65)	$(3.28)
WEIGHTED AVERAGE NUMBER OF BASIC AND DILUTED SHARES OUTSTANDING	75,969,000	65,568,000	72,860,000	65,398,000

</TABLE>

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

THE LEARNING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

<TABLE>
<CAPTION>

	Six Months Ended June 30,	
	1998	1997
	(as restated)	
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(119,910)	$(214,783)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, amortization and other	107,952	249,613
Provisions for returns and doubtful accounts	38,398	19,020
Charge for incomplete technology	56,924	9,250
Provision for income taxes	(626)	6,993
Changes in operating assets and liabilities:		
Accounts receivable	(19,509)	(2,085)
Accounts payable and accruals	660	(13,265)
Other	(4,250)	(19,691)
NET CASH PROVIDED BY OPERATING ACTIVITIES	59,639	35,052
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets and other	(19,905)	(6,769)
Businesses acquired, net of cash acquired	(117,242)	(10,127)
Acquisition related items	(56,469)	(31,245)
NET CASH USED FOR INVESTING ACTIVITIES	(193,616)	(48,141)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments under capital leases and other long-term debt	(993)	(395)
Borrowings under line of credit	5,000	--
Repurchase of Senior Convertible Notes	(6,000)	(12,000)
Proceeds from issuance of common stock	30,396	1,867

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Proceeds from the issuance of special warrants, net	134,346	--
Repurchase of common stock	--	(14,574)
Other	(2,200)	(474)
NET CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	160,549	(25,576)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(356)	(902)
NET CHANGE IN CASH AND CASH EQUIVALENTS	26,216	(39,567)
EFFECT OF BRODERBUND'S EXCLUDED RESULTS	6,667	--
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	188,956	259,223
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 221,839	$ 219,656

</TABLE>

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

THE LEARNING COMPANY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
(in thousands)
(unaudited)

<TABLE>
<CAPTION>

	Six Months Ended June 30,	
	1998	1997
<S>	<C>	<C>
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Common stock issued to acquire Mindscape	$30,000	$ --
Common stock issued to acquire Sofsource	45,000	--
Common stock issued to settle earn-out agreements	5,573	--
Common stock issued in exchange for Senior Notes	96,695	--
Common stock issued to settle note payable to related party	--	3,053
Common stock issued to acquire Living Books	--	7,321

The accompanying notes are an integral part of these condensed consolidated financial statements.
</TABLE>

THE LEARNING COMPANY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share amounts)
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of The Learning Company, Inc. ("TLC" or the "Company") for the three and six months ended June 30, 1998 and 1997 are unaudited and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements previously filed with the Securities and Exchange Commission (the "SEC") in the Company's 1997 Annual Report on Forms 10-K and 10-K/A. The Company filed with the SEC on November 4, 1998 a Current Report on Form 8-K/A containing supplemental audited consolidated financial statements for the year ended December 31, 1997 to reflect the Company's acquisition of Broderbund Software, Inc. ("Broderbund"), which was accounted for as a pooling-of-interests. The results of operations for the three and six months ended June 30, 1998 are not necessarily indicative of the results for the entire year ending December 31, 1998.

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The accompanying condensed consolidated financial statements as of June 30, 1998 have been restated to reflect a change in the original accounting for the purchase price allocation related to the March 1998 acquisition of Mindscape, Inc. and certain affiliated companies ("Mindscape", see Note 2). After discussions with the staff of the SEC (the "Staff"), the Company has revised the original accounting for the purchase price allocation and the related amortization of intangibles. The Company has restated its previously issued results to reflect the discussions with the Staff and to apply the appropriate guidance and policy as discussed in Note 2 to the Condensed Consolidated Financial Statements. This has resulted in a reduction in the amount of the charge for in-process technology from $103,000 to $40,000 and an increase in the amounts allocated to completed technology and products from $13,000 to $22,000; to brands and trademarks from $30,000 to $38,000 and to goodwill from $9,854 to $55,854. Amortization, merger and other charges has decreased for the Six Months Ended June 30, 1998 from $214,883 to $160,318, and corresponding changes for the same amounts have been made to the balance of intangible assets and stockholders' equity. The restatement does not affect previously reported net cash flows for the periods or for future periods.

On August 31, 1998, the Company acquired Broderbund, a developer and publisher of consumer software for the home and school pursuant to an agreement dated June 21, 1998. This transaction was accounted for using the pooling-of-interests method of accounting. The accompanying Condensed Consolidated Financial Statements of the Company have been restated to include the results and balances of Broderbund for all periods presented.

The table below details the previously separate results of the Company and Broderbund and the effect of the restatement as discussed above for the Three and Six Months Ended June 30, 1998.

<TABLE>
<CAPTION>

	Three Months Ended June 30, 1998			
	The Learning Company	Broderbund	Combined	Restated
<S>	<C>	<C>	<C>	<C>
Revenues	$129,251	$ 42,731	$171,983	$171,983
Operating loss	(22,636)	(30,856)	(53,942)	(56,577)
Loss before income taxes	(24,741)	(27,172)	(51,913)	(54,998)
Net loss	(24,741)	(27,172)	(51,913)	(54,998)
Net loss per share	$ (.42)		$ (.68)	$ (.72)

</TABLE>

<TABLE>
<CAPTION>

	Six Months Ended June 30, 1998			
	The Learning Company	Broderbund	Combined	Restated
<S>	<C>	<C>	<C>	<C>
Revenues	$ 242,853	$108,466	$ 351,319	$ 351,319
Operating loss	(146,530)	(29,464)	(175,994)	(117,119)
Loss before income taxes	(154,149)	(24,636)	(178,785)	(119,910)
Net loss	(154,149)	(24,636)	(178,785)	(119,910)
Net loss per share	$ (2.74)		$ (2.45)	$ (1.65)

</TABLE>

The second quarter reporting period for 1998 ended on July 4, 1998, and the second quarter reporting period for 1997 ended on July 6, 1997. The periods from April 5, 1998 to July 4, 1998 and from April 6, 1997 to July 6, 1997 are referred to as the "Second Quarter 1998" and the "Second Quarter 1997" or the "Three Months Ended June 30, 1998" and the "Three Months Ended June 30, 1997", respectively. The periods from January 4, 1998 to July 4, 1998 and from January 7, 1997 to July 6, 1997 are referred to as the "Six Months Ended June 30, 1998" and the "Six Months Ended June 30, 1997," respectively, throughout these financial statements and Form 10-Q/A.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions regarding items such as return reserves and allowances, net realizable value of intangible assets and valuation allowances for deferred tax assets that affect the reported

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amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates in these financial statements include: return reserves, inventory reserves, valuation of deferred tax assets and valuation and useful lives of intangible assets. Actual results could differ from these estimates.

2. BUSINESS COMBINATIONS

Broderbund

On August 31, 1998, the Company acquired all of the issued and outstanding common stock of Broderbund in exchange for 16,848,753 shares of common stock of the Company pursuant to an agreement and plan of merger dated June 21, 1998 whereby each share of common stock of Broderbund was exchanged for 0.80 shares of the Company's common stock. This acquisition has been accounted for using the pooling-of-interests method of accounting. The balances as at December 31, 1997 and the results for the Three and Six Months Ended June 30, 1998 and 1997 have been restated to include the balances and results of Broderbund. The balance sheet of the Company as at December 31, 1997 has been combined with the balance sheet of Broderbund as at November 30, 1997. Retained earnings have been charged with the net income of $682 for the omitted period of December 31, 1997. Revenues, operating expenses and operating income for the excluded month of December 1997 were $28,712, $27,974 and $738, respectively. The financial results for the Six Months Ended June 30, 1997 include the results of the previously separate businesses as described below. Revenues and net loss from the Company and Broderbund for the Six Months Ended June 30, 1998 are described above in Note 1.

<TABLE>
<CAPTION>

Six Months Ended June 30, 1997	The Learning Company	Broderbund	Adjustments	Combined Restated
<S>	<C>	<C>	<C>	<C>
Revenues	$ 176,186	$83,609	$ --	$ 259,795
Operating loss	(199,857)	(7,260)	4,500	(202,617)
Net loss	(209,873)	(3,451)	(1,459)	(214,783)
Net loss per share	$ (4.30)	$ (0.21)	$ --	$ (3.28)

</TABLE>

In order to conform the application of generally accepted accounting principles between the two separate entities, an adjustment to increase the valuation allowance for income tax assets of $5,959 was recorded in the Six Months Ended June 30, 1997. The adjustment increases the valuation allowance for uncertainty of recoverability of income tax assets of Broderbund as it was determined that it was more likely than not that some or all of the assets would not be realized under the combined entity. There were no intercompany transactions between the two companies other than a termination fee of $18,000 paid by The Learning Company, a corporation that the Company acquired in 1995 (the "Former Learning Company"), to Broderbund in December 1995 related to the proposed merger between the two companies that was terminated. This amount was recorded as other income by Broderbund and was included in the determination of the purchase price of the Former Learning Company by the Company. Accordingly, the merger termination fee was eliminated from the Broderbund net income for the year ended August 31, 1996 and the purchase price of the Former Learning Company was reduced, resulting in a reduction in amortization of goodwill in the Six Months Ended June 30, 1997 of $4,500.

Mindscape

On March 5, 1998, the Company acquired control of Mindscape, Inc., a consumer software company, and certain affiliated companies ("Mindscape") for a total purchase price of $152,557 payable in cash of $122,557 and the remainder through the issuance of 1,366,743 shares of common stock. This acquisition was accounted for using the purchase method of accounting.

Summarized pro forma combined results of operations for the Six Months Ended June 30, 1998 and 1997 are shown as if the transaction had occurred at the beginning of the period presented. Pro forma adjustments relate primarily to amortization of goodwill and complete technology. These pro forma combined results of operations include the historical results of Mindscape and do not reflect any reductions in operating costs derived from consolidation of functional departments. In addition, the pro forma combined operating loss

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includes pro forma amortization of acquired intangible assets resulting from the acquisition of Mindscape for the Six Months Ended June 30, 1998 and 1997 of $3,450 and $10,350 respectively.

Six Months Ended June 30, 1998	The Learning Company, Inc.	Mindscape Including Pro Forma Adjustments	Pro Forma Combined
Revenues	$ 351,319	$ 9,090	$ 360,409
Operating loss	(117,119)	(46,824)	(163,943)
Net loss	(119,910)	(47,884)	(167,794)
Net loss per share	$ (1.65)		$ (2.07)

Six Months Ended June 30, 1997	The Learning Company, Inc.	Mindscape Including Pro Forma Adjustments	Pro Forma Combined
Revenues	$ 259,795	$ 33,311	$ 293,106
Operating loss	(202,617)	(36,430)	(239,047)
Net loss	(214,783)	(34,430)	(251,213)
Net loss per share	$ (3.28)		$ (3.37)

Sofsource, Inc.

On June 2, 1998, the Company acquired control of Sofsource, Inc. ("Sofsource"), an educational software publisher, for a total purchase price of $45,000 through the issuance of 1,641,138 shares of common stock. This acquisition was accounted for using the purchase method of accounting. Pro forma results for Sofsource were not material.

The purchase price for the 1998 acquisitions accounted for using the purchase method of accounting was allocated as follows:

	Mindscape	Sofsource	Total
Purchase price	$152,557	$45,000	$197,557
Plus: fair value of net liabilities assumed	3,297	2,287	5,584
Excess to allocate	155,854	47,287	203,141
Less: excess allocated to			
Incomplete technology	40,000	14,924	54,924
Completed technology and products	22,000	--	22,000
Brands and trade names	38,000	3,322	41,322
	100,000	18,246	118,246
Goodwill	$ 55,854	$29,041	$ 84,895

The Staff has recently issued guidance related to the valuation of in-process technology as set forth in its letter dated September 9, 1998 from the Chief Accountant of the SEC to the American Institute of Certified Public Accountants. The Company has had discussions with the Staff concerning the application of the methodology to the valuation of the incomplete technology and other intangible assets and has implemented the methodology. As a result of the application of the valuation methodology the purchase price was allocated to incomplete technology, brands and trade names and complete technology and products. Among the factors considered by the Company to determine the allocation of the purchase price were an estimation of the stage of completion of development of each product at the date of acquisition, an estimation of cash flows that would be achieved by any buyer resulting from the expected revenues generated from such projects, a discounting of the net cash flows from the products using an effective industry-based tax rate of 35% (net of any tax benefits from the acquired assets) and a risk adjusted discount rate (which ranged from 20% to 22%) and an estimation of market royalty rates to value the brands and trade

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names. The in-process development consisted of consumer software products in the games, productivity and education segments. On average the in-process development projects were approximately 55% complete at the time of acquisition. The Company expects to complete the majority of the development projects within the twelve months of the acquisition date and expects to spend approximately $25,000 to complete the development. The Company expects that it will begin to receive the benefits of these in-process development projects during 1998. There were no anticipated material changes from historical pricing, margins or expense levels in the projects under development. In order to complete the development on schedule the Company must continue to retain key development personnel. In the event that these in-process development projects are not completed or replaced with similar projects the Company may experience lower future revenues, operating margins and cash flows.

The Company believes that the incomplete products under development had not reached technical feasibility at the date of the acquisition, have no alternative future use and additional development is required to ensure their commercial viability. In order to develop the acquired incomplete technology into commercially viable products the Company will be required to complete development of proprietary code, development of the artistic and graphic works and design of the remaining storyboards.

The remaining identified intangibles, including the value of completed technology and products and brands and trade names, will be amortized on a straight-line basis over their estimated useful lives of two and ten years, respectively. Goodwill resulting from the acquisition is being amortized using the straight-line method over ten years.

PF. Magic, Inc.

On April 30, 1998, the Company acquired PF.Magic, Inc. ("PF.Magic"), a virtual life software company, in exchange for the issuance of 521,021 shares of common stock. This transaction was accounted for using the pooling-of-interests method of accounting. The consolidated financial statements of the Company for the periods prior to consummation do not include the results and balances of PF.Magic as it was deemed to be immaterial to the consolidated financial statements.

3. ISSUANCE OF SPECIAL WARRANTS

On March 12, 1998, the Company's Canadian subsidiary, SoftKey Software Products Inc. ("SoftKey"), issued in a private placement in Canada 8,687,500 special warrants for net proceeds of approximately $134,000. On July 9, 1998 each special warrant was exchanged into one exchangeable non-voting share of SoftKey (an "Exchangeable Share") without additional payment. The Exchangeable Shares are exchangeable at the option of the holder on a one-for-one basis for common stock of the Company without additional payment.

4. BORROWINGS

On August 7, 1998, the Company amended its revolving line of credit (the "Line") to provide a maximum availability of $147,500, of which $40,000 is outstanding at June 30, 1998 and was subsequently repaid. Borrowings under the line are due July 1, 2000 and bears interest at variable rates. The Line is subject to certain financial covenants, is secured by a general security interest in certain operating subsidiaries of the Company and by a pledge of the stock of certain of its subsidiaries.

5. COMPREHENSIVE LOSS

Effective January 4, 1998, the Company adopted Statement of Financial Accounting Standard No. 130, "Reporting Comprehensive Income." The Company's comprehensive loss was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	1998	1997	1998	1997
Net loss	$(54,998)	$ (97,620)	$(119,910)	$(214,783)
Other comprehensive loss	(3,457)	(2,520)	(6,217)	(3,968)
Total comprehensive loss	$(58,455)	$(100,140)	$(126,127)	$(218,751)

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</TABLE>

Other comprehensive loss includes losses on foreign currency translation.

6. INVENTORIES

Inventories are stated at the lower of weighted average cost or net realizable value and include third-party assembly costs, CD-ROM discs, manuals and an allocation of fixed overhead.

	June 30, 1998	December 31, 1997
Components	$ 2,031	$ 8,333
Finished goods	41,706	31,049
	$43,737	$39,382

7. COMPUTATION OF EARNINGS PER SHARE

For the year ended December 31, 1997, the Company adopted Statement of Accounting Standard No. 128 ("FAS 128"), which requires the presentation of Basic and Dilutive earnings per share, which replaces primary and fully diluted earnings per share. Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Dilutive net loss per share is computed using the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents. Common stock equivalents consist of convertible debentures, preferred stock, stock options and warrants. The dilutive computations do not included common stock equivalents for the Three and Six Months Ended June 30, 1998 and 1997 as their inclusion would be antidilutive. Dilutive elements would include the 750,000 shares of Series A Preferred Stock (which is ultimately convertible into 15,000,000 shares of common stock) issued on December 5, 1997, 8,687,500 special warrants to acquire Exchangeable Shares and employee stock options totaling 15,067,000 and 13,214,000 at June 30, 1998 and 1997, respectively.

8. CONVERSION OF DEBT TO COMMON STOCK

On May 29, 1998, the Company entered into an agreement to issue 3,434,995 shares of its common stock in exchange for an aggregate principal amount of $96,695 of its 5-1/2% Senior Convertible Notes due 2000, which were then cancelled. The holders have agreed to hold substantially all of the common stock received as a result of the exchange for a period of at least six months from issue date.

9. EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities." This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. The statement requires companies to recognize all derivatives as either assets or liabilities, with the instruments measured at fair value. The accounting for changes in fair value, gains or losses, depends on the intended use of the derivative and its resulting designation. The statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The Company will adopt SFAS No. 133 by January 1, 2000 and does not expect SFAS No. 133 to have a material impact on its financial statements.

In June 1997, the FASB issued SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information" which changes the way public companies report information about operating segments. SFAS No. 131 which is based on the management approach to segment reporting establishes requirements to report selected segment information quarterly and to report entity wide disclosures about products and services major customers and the material countries in which the entity holds assets and reports revenue. Management is currently evaluating the effects of this change on its reporting of segment information. The Company will adopt SFAS No. 131 for its fiscal year ending December 31, 1998.

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10. SUBSEQUENT EVENTS

Proposed Mattel Merger

On December 13, 1998, the Company entered into a merger agreement with Mattel, Inc. ("Mattel") (the "Merger Agreement") pursuant to which each share of common stock of the Company will be exchanged for not less than 1.0 nor more than 1.2 shares of Mattel common stock, and the Company will be merged with and into Mattel. Subject to the minimum and maximum, the exact number of shares of Mattel common stock to be issued to stockholders of the Company will be determined by dividing $33.00 by an average of the closing prices of Mattel common stock on the New York Stock Exchange in accordance with the procedures set forth in the Merger Agreement (the "Exchange Ratio"). Each share of Series A Preferred Stock will be converted into the right to receive a number of shares of Mattel common stock equal to the Exchange Ratio multiplied by twenty (the rate at which each share of Series A Preferred Stock is convertible into shares of common stock of the Company). Each exchangeable non-voting share of the

Company's subsidiary, SoftKey Software Products Inc., will become exchangeable for one share of Mattel common stock multiplied by the Exchange Ratio. The transaction is expected to be accounted for using the pooling-of-interests method of accounting. The closing of the transaction is subject to certain conditions, including regulatory and stockholder approvals of each company.

Sale of Canadian Income Tax Software Business

On July 9, 1998, the Company sold its Canadian income tax software for approximately $45 million in cash. The net gain on sale was not material.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the consolidated financial statements and the notes thereto and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's audited consolidated financial statements previously filed with the Securities and Exchange Commission (the "SEC") in the Company's 1997 Annual Report on Forms 10-K and 10-K/A. The Company filed with the SEC Current Reports on Form 8-K/A on November 4, 1998 and March 26, 1999 containing supplemental audited consolidated financial statements for the year ended December 31, 1997 (the "1997 Supplemental Financial Statements") to reflect its acquisition of Broderbund Software, Inc. ("Broderbund"), which was accounted for as a pooling-of-interests. All dollar amounts presented in this Management's Discussion and Analysis of Financial Condition and Results of Operations are presented in thousands, except per share amounts. Certain of the information contained in this Quarterly Report on Form 10-Q/A which are not historical facts may include "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's actual results may differ materially from those set forth in such forward-looking statements. Certain risks and uncertainties including, but not limited to, those discussed below in "Factors Affecting Future Operating Results," as well as in the Company's audited consolidated financial statements previously filed with the SEC in the Company's 1997 Annual Report on Forms 10-K and 10-K/A and in the 1997 Supplemental Financial Statements, as well as other factors, may also cause actual results to differ materially from those projected. The Company assumes no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. The information contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations is provided pursuant to applicable regulations of the SEC and is not intended to serve as a basis for projections of future events.

INTRODUCTION

The Learning Company, Inc. ("TLC" or the "Company") develops and publishes a broad range of high quality branded consumer software for personal computers ("PCs") that educate and entertain across every age category, from young children to adults. The Company's primary emphasis is in educational, productivity and reference software, but it also offers a selection of lifestyle and entertainment products, both in North America and internationally.

The Company distributes its products through retail channels, including direct sales to computer electronics stores, office superstores, mass merchandisers, discount warehouse stores and software specialty stores which control over 23,000 North American storefronts. The Company also sells its products directly to consumers through the mail, telemarketing and the Internet, and directly to

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schools. The Company's international sales are conducted from subsidiaries in Germany, France, Holland, Ireland, the United Kingdom, Australia and Japan. The Company also derives revenue from licensing its products to original equipment manufacturers ("OEMs"), which bundle the Company's products for sale with computer systems or components and through on-line offerings.

Business Combinations

Proposed Mattel Merger

On December 13, 1998, the Company entered into a merger agreement with Mattel, Inc. ("Mattel") (the "Merger Agreement") pursuant to which each share of common stock of the Company will be exchanged for not less than 1.0 nor more than 1.2 shares of Mattel common stock, and the Company will be merged with and into Mattel. Subject to the minimum and maximum, the exact number of shares of Mattel common stock to be issued to stockholders of the Company will be determined by dividing $33.00 by an average of the closing prices of Mattel common stock on the New York Stock Exchange in accordance with the procedures set forth in the Merger Agreement (the "Exchange Ratio"). Each share of Series A Preferred Stock will be converted into the right to receive a number of shares of Mattel common stock equal to the Exchange Ratio multiplied by twenty (the rate at which each share of Series A Preferred Stock

is convertible into shares of common stock of the Company). Each exchangeable non-voting share of the Company's subsidiary, SoftKey Software Products Inc., will become exchangeable for one share of Mattel common stock multiplied by the Exchange Ratio. The transaction is expected to be accounted for using the pooling-of-interests method of accounting. The closing of the transaction is subject to certain conditions, including regulatory and stockholder approvals of each company.

Broderbund

On August 31, 1998, the Company acquired Broderbund , a publisher and developer of consumer software for the home and school market, in exchange for 16,848,753 shares of the Company's common stock pursuant to an agreement and plan of merger dated June 21, 1998 whereby each share of Broderbund common stock was exchanged for 0.80 shares of the Company's common stock. This transaction was accounted for using the pooling-of-interests method of accounting. The accompanying Consolidated Financial Statements of the Company have been restated to include the results and balances of Broderbund for all periods presented.

Mindscape

On March 5, 1998, the Company acquired control of Mindscape, Inc., a consumer software company, and certain affiliated companies ("Mindscape") for a purchase price of $152,557 payable in cash of $122,557 and the remainder through the issuance of 1,366,743 shares of common stock. This transaction was accounted for using the purchase method of accounting.

Sofsource

On June 2, 1998, the Company acquired control of Sofsource, Inc., an educational software company, for a purchase price of $45,000, which was settled through the issuance of 1,641,138 shares of common stock. This transaction was accounted for using the purchase method of accounting.

Other Business Combinations

On May 14, 1998, the Company acquired P.F. Magic, Inc. ("PF Magic"), a virtual life entertainment software company, in exchange for the issuance of 521,021 shares of common stock. On December 3, 1998, the Company acquired Palladium Interactive, Inc. ("Palladium"), a genealogy and children's software company, in exchange for the issuance of 788,754 shares of common stock. Each of these transactions was accounted for using the pooling-of-interests method of accounting. The Consolidated Financial Statements for years prior to December 31, 1998 do not include the results and balances of these companies as they were deemed to be immaterial to the Consolidated Financial Statements for those periods.

RESULTS OF OPERATIONS

Net Loss. The Company incurred a net loss of $54,998 ($0.72 per share) and $119,910 ($1.65 per share) on revenues of $171,983 and $351,319 in the Second

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Quarter 1998 and the Six Months Ended June 30, 1998 as compared to a net loss of $97,620 ($1.49 per share) and $214,783 ($3.28 per share) on revenues of $128,599 and $259,795 in the Second Quarter 1997 and the Six Months Ended June 30, 1997. The net loss in the Second Quarter 1998, the Six Months Ended June 30, 1998, the Second Quarter 1997, and the Six Months Ended June 30, 1997 is a result of the effect of the amortization, merger and other charges of $63,201, $160,318, $121,645, $254,658, respectively.

Revenues. Revenues by distribution channel for the Second Quarter 1998 as compared to the Second Quarter 1997 and the Six Months Ended June 30, 1998 as compared to the Six Months Ended June 30, 1997 are as follows:

<TABLE>
<CAPTION>

	Three Months Ended June 30,				Six Months Ended June 30,			
	1998	%	1997	%	1998	%	1997	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Retail	$ 79,285	46%	$ 60,340	47%	$171,771	49%	127,913	49%
OEM	9,904	6%	7,794	6%	19,617	6%	14,290	6%
School	21,776	13%	17,187	13%	37,199	11%	29,856	11%
Direct response	28,558	17%	18,250	14%	56,915	16%	37,039	14%
On-line	2,140	1%	--	--%	4,395	1%	--	--%
International	26,922	15%	21,509	17%	52,678	15%	40,814	16%
Tax software and services	3,398	2%	3,519	3%	8,744	2%	9,883	4%
	$171,983	100%	$128,599	100%	$351,319	100%	$259,795	100%

</TABLE>

Sales increased in dollars and as a percentage of total revenue for the Three and Six Months Ended June 30, 1998 as compared to the Three and Six Months Ended June 30, 1997 primarily due to growth in the demand for consumer software. Retail revenues also were higher than the prior year due to the acquisitions of Mindscape and Sofsource and the launch of several new and upgraded products, which included: Reader Rabbit's Toddler, Reader Rabbit's Preschool, Reader Rabbit's Kindergarten, The ClueFinders' 4th Grade Adventures, The Princeton Review products: Bob Vila's Home Design, Elmo's Reading: Preschool and Kindergarten, Elmo's Preschool, and Madeline Thinking Games. OEM sales increased in dollars for the Three and Six Months Ended June 30, 1998 as compared to the Three and Six Months Ended June 30, 1997 primarily due to additional demand from PC manufacturers across the industry. International sales increased in dollars for the Three and Six Months Ended June 30, 1998 as compared to the Three and Six Months Ended June 30, 1997 primarily as a result of the higher PC sales in Europe and revenues from the acquisition of Mindscape. Direct response revenues increased in dollars for the Three and Six Months Ended June 30, 1998 as compared to the Three and Six Months Ended June 30, 1997 due to growth in the Company's catalog based sales to end users and due to revenues from Mindscape. School sales increased in dollars for the Three and Six Months Ended June 30, 1998 as compared to the Three and Six Months Ended June 30, 1997 due to the increasing demand for software in American schools. Revenues from the Tax Division decreased in dollars and as a percentage of total revenue for the Three and Six Months Ended June 30, 1998 as compared to the Three and Six Months Ended June 30, 1997 due to greater competition in the Canadian home tax software market and lower Canadian dollar exchange rates. The tax software business was sold on July 9, 1998 for approximately $45,000 in cash.

Costs and Expenses. The Company's costs and expenses and the respective percentages of revenues for the Second Quarter 1998 as compared to the Second Quarter 1997 and the Six Months Ended June 30, 1998 as compared to the Six Months Ended June 30, 1997 are as follows:

<TABLE>
<CAPTION>

	Three Months ended June 30,				Six Months Ended June 30,			
	1998	%	1997	%	1998	%	1997	%
<S>	<C>	<C>	<C>	<C>		<C>	<C>	<C>
Costs of production	$ 62,626	36%	$ 38,687	30%	$122,028	35%	$ 77,965	30%
Sales and marketing	60,756	35%	32,981	26%	108,694	31%	65,060	25%
Development and software costs	25,041	15%	20,672	16%	47,862	14%	40,950	16%
General and administrative	16,936	10%	11,592	9%	29,536	8%	23,779	9%
	$165,359	96%	$103,932	81%	$308,120	88%	$207,754	80%

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</TABLE>

Costs of production includes the cost of manuals, packaging, diskettes, duplication, assembly and fulfillment charges. In addition, costs of production includes royalties paid to third-party developers and inventory obsolescence reserves. Costs of production as a percentage of revenues increased in the Second

Quarter 1998 and the Six Months Ended June 30, 1998 as compared to the Second Quarter 1997 and the Six Months Ended June 30, 1997 from 30% and 30% to 36% and 35%, respectively. The change in costs of production as a percentage of revenues in Second Quarter 1998 and the Six Months Ended June 30, 1998 from Second Quarter 1997 and the Six Months Ended June 30, 1997 was caused by sale of products from the acquisitions of Mindscape, Sofsource, and Creative Wonders that have higher production costs and royalty rates.

Sales and marketing expenses increased to 35% and 31% of revenues in the Second Quarter 1998 and the Six Months Ended June 30, 1998 as compared to 26% and 25% of revenues the Second Quarter 1997 and the Six Months Ended June 30, 1997. The increase relates to higher spending on coupon rebate promotions, retail channel marketing and trade promotion programs.

Development and software costs decreased to 15% and 14% of revenues in the Second Quarter 1998 and the Six Months Ended June 30, 1998 as compared to 16% of revenues in the Second Quarter 1997 and the Six Months Ended June 30, 1997 due to the timing of product introduction and the ability of the Company to leverage its development costs across broader distribution channels.

General and administrative expenses decreased to 10% and 8% of revenues in the Second Quarter 1998 and the Six Months Ended June 30, 1998 as compared to 9% of revenues in the Second Quarter 1997 and the Six Months Ended June 30, 1997 due to continued efforts to reduce both fixed costs and employee headcount related to the combinations of the Company's acquisitions. In terms of absolute dollars general and administrative expenses increased in the Second Quarter 1998 and the Six Months Ended June 30, 1998 as compared to the Second Quarter 1997 and the Six Months Ended June 30, 1997 due to the costs from the Mindscape and Sofsource operations.

The Company reported merger, amortization and other charges in the Second Quarter 1998 and the Six Months Ended June 30, 1998 and the Second Quarter 1997 and the Six Months Ended June 30, 1997 of $63,201, $121,645, $160,318, and $254,658, resulting primarily from the acquisitions. The charges in the Three and Six Months Ended June 30, 1998 include $16,924 and $56,924, related to incomplete technology write-offs, with the remainder relating to amortization of goodwill, amortization of acquired technology related assets and other expenses. The Staff has recently issued guidance related to the valuation of in-process technology as set forth in its letter dated September 9, 1998 from the Chief Accountant of the SEC to the American Institute of Certified Public Accountants. The Company has had discussions with the Staff concerning the application of the methodology to the valuation of the incomplete technology and other intangible assets and has implemented the methodology. As a result of the application of the valuation methodology the purchase price was allocated to incomplete technology, brands and trade names and complete technology and products. Among the factors considered by the Company to determine the allocation of the purchase price using the methodology were an estimation of the stage of completion of development of each product at the date of acquisition, an estimation of cash flows that would be achieved by any buyer resulting from the expected revenues generated from such projects, a discounting of the net cash flows from the products using an effective industry-based tax rate of 35% (net of any tax benefits from the acquired assets) and a risk adjusted discount rate (which ranged from 20% to 22%) and an estimation of market royalty rates to value the brands and trade names. The in-process development consisted of consumer software products in the games, productivity and education segments. On average the in-process development projects were approximately 55% complete at the time of acquisition. The Company expects to complete the majority of the development projects within the twelve months of the acquisition date and expects to spend approximately $25,000 to complete the development. The Company expects that it will begin to receive the benefits of these in-process development projects during 1998. There were no anticipated material changes from historical pricing, margins or expense levels in the projects under development. In order to complete the development on schedule the Company must continue to retain key development personnel. In the event that these in-process development projects are not completed or replaced with similar projects the Company may experience lower future revenues, operating margins and cash flows. In order to develop the acquired incomplete technology into commercially viable products, the Company will be required to complete development of proprietary code, development of the artistic and graphic works and design of the remaining storyboards.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased from $188,956 at December 31, 1997 to $221,839 at June 30, 1998. This increase was attributable to the Company's Canadian subsidiary, SoftKey Software Products Inc. ("SoftKey"), issuing 8,687,500 special warrants in a private placement for proceeds of approximately $134,000 offset by the cash paid for the acquisition of Mindscape of approximately $120,000. Other financing activities generated a further $26,203 and investing activities used a further $73,616 offset by cash generated from operations of $59,639.

As of July 27, 1998, the Company has outstanding $200,955 principal amount Senior Convertible Notes ($10,000 is included as current). The Senior Convertible Notes will be redeemable by the Company on or after November 2, 1998 at declining redemption prices. Should the Senior Convertible Notes not convert under their terms into common stock, there can be no assurances that the Company will have sufficient cash flows from future operations to meet payment requirements under the debt or be able to re-finance the notes under favorable terms or at all.

On August 7, 1998, the Company amended its revolving line of credit (the "Line") to provide a maximum availability of $147,500, of which $40,000 is outstanding at June 30, 1998 and was subsequently repaid. Borrowings under the line are due July 1, 2000 and bear interest at variable rates. The Line is subject to certain financial covenants, is secured by a general security interest in certain operating subsidiaries of the Company and by a pledge of the stock of certain of its subsidiaries.

The Company, through its wholly owned subsidiary, The Learning Company Funding, Inc. (a separate special purpose corporation), is party to a receivables purchase agreement whereby it can sell without recourse undivided interests in eligible pools of trade accounts receivable on a revolving basis during a five year period ending September 30, 2002 of up to $100,000, as amended. The Company acts as servicing agent for the sold receivables in the collection and administration of the accounts. In addition, the Company has a European accounts receivable factoring facility where it can sell up to $25,000 of European accounts receivable on a recourse basis to its banks. Each of these facilities were fully utilized at June 30, 1998.

Income generated by the Company's subsidiaries in certain foreign countries cannot be repatriated to the Company in the United States without payment of additional taxes since the Company does not currently receive a U.S. tax credit with respect to income taxes paid by the Company (including its subsidiaries) in those foreign countries.

At the present time, the Company expects that its cash flows from operations will be sufficient to finance the Company's operations for at least the next twelve months. Longer-term cash requirements are dictated by a number of external factors, which include the Company's ability to launch new and competitive products, the strength of competition in the consumer software industry and the growth of the home computer and software markets. In addition, the Company's Senior Convertible Notes mature November 1, 2000. If not converted to common stock, the Company may be required to secure alternative financing sources. There can be no assurance that alternative financing sources will be available on terms acceptable to the Company in the future or at all. The Company continuously evaluates products and technologies for acquisitions, however no estimation of short-term or long-term cash requirements for such acquisitions can be made at this time.

FUTURE OPERATING RESULTS

The Company operates in a rapidly changing environment that is subject to many risks and uncertainties. Some of the important risks and uncertainties which may cause the Company's operating results to differ materially or adversely are discussed below, in the Company's 1997 Annual Report on Form 10-K and 10-K/A and in the 1997 Supplemental Financial Statements.

The Company's future operating results are subject to a number of uncertainties, including its ability to develop and introduce new products, the introduction of competitive products and general economic conditions. In addition, the Company competes for retail shelf space and general consumer awareness with a number of companies that market consumer software, including competitors and potential competitors that possess significantly greater capital, marketing resources and brand recognition than the Company. Furthermore, the rapid changes in the market and the increasing number of new products available to consumers have increased,

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and are expected to continue to increase, the degree of consumer acceptance risk with respect to any specific title that the Company may publish.

SIGNATURES

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

THE LEARNING COMPANY, INC.

/s/ R. Scott Murray

R. Scott Murray
Executive Vice President and
Chief Financial Officer
(principal financial and
accounting officer)

March 25, 1999

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