

HANDLEMAN CO /MI/
Form 10-Q
December 06, 2007
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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 27, 2007

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-7923

HANDLEMAN COMPANY

(Exact name of registrant as specified in its charter)

MICHIGAN
(State or other jurisdiction of incorporation or organization)

38-1242806
(I.R.S. Employer Identification No.)

500 Kirts Boulevard, Troy, Michigan
(Address of principal executive offices)

48084-5225
(Zip Code)

Registrant's telephone number, including area code: 248-362-4400

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days.

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

YES NO

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. The number of shares of common stock outstanding as of November 30, 2007 was 20,452,118.

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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 27, 2007 AND OCTOBER 28, 2006

(UNAUDITED)

(in thousands of dollars except per share data)

	Three Months (13 weeks) Ended		Six Months (26 weeks) Ended	
	October 27, 2007	October 28, 2006	October 27, 2007	October 28, 2006
Revenues	\$ 315,529	\$ 330,509	\$ 589,713	\$ 570,915
Costs and expenses:				
Direct product costs	(260,726)	(278,750)	(493,221)	(483,564)
Selling, general and administrative expenses	(63,604)	(58,907)	(121,123)	(115,123)
Operating loss	(8,801)	(7,148)	(24,631)	(27,772)
Interest expense	(3,090)	(1,495)	(6,374)	(3,276)
Investment (loss) income	(3,140)	470	(1,691)	476
Loss before income taxes	(15,031)	(8,173)	(32,696)	(30,572)
Income tax (expense) benefit	(846)	(6,064)	(897)	10,392
Net loss	\$ (15,877)	\$ (14,237)	\$ (33,593)	\$ (20,180)
Loss per share:				
Basic	\$ (0.78)	\$ (0.70)	\$ (1.66)	\$ (1.00)
Diluted	\$ (0.78)	\$ (0.70)	\$ (1.66)	\$ (1.00)
Weighted average number of shares outstanding during the period:				
Basic	20,359	20,268	20,286	20,197
Diluted	20,359	20,268	20,286	20,197

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

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HANDLEMAN COMPANY

CONSOLIDATED BALANCE SHEETS

AS OF OCTOBER 27, 2007 and APRIL 28, 2007

(in thousands of dollars except share data)

	October 27, 2007 (Unaudited)	April 28, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,973	\$ 18,457
Accounts receivable, less allowances of \$14,493 at October 27, 2007 and \$12,797 at April 28, 2007	252,078	236,069
Merchandise inventories	151,954	115,535
Other current assets	35,204	17,713
Total current assets	443,209	387,774
Property and equipment:		
Land, buildings and improvements	13,885	13,885
Display fixtures	29,960	28,821
Computer hardware and software	65,452	66,111
Equipment, furniture and other	58,905	56,863
	168,202	165,680
Less accumulated depreciation	107,667	100,552
	60,535	65,128
Goodwill, net	36,938	36,938
Intangible assets, net	38,849	36,433
Other assets, net	10,942	20,178
Total assets	\$ 590,473	\$ 546,451
LIABILITIES		
Current liabilities:		
Debt	\$ 114,440	\$ 106,897
Accounts payable	218,613	159,444
Accrued and other liabilities	39,619	31,163
Total current liabilities	372,672	297,504
Other liabilities	8,937	9,402
Commitments and contingencies (Note 9)		
Total liabilities	381,609	306,906
SHAREHOLDERS EQUITY		
Preferred stock, \$1.00 par value; 1,000,000 shares authorized; none issued	205	203

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Common stock, \$.01 par value; 60,000,000 shares authorized; 20,452,000 and 20,291,000 shares issued and outstanding at October 27, 2007 and April 28, 2007, respectively		
Additional paid-in capital	572	
Accumulated other comprehensive income	21,314	17,414
Retained earnings	186,773	221,928
Total shareholders' equity	208,864	239,545
Total liabilities and shareholders' equity	\$ 590,473	\$ 546,451

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 27, 2007
(UNAUDITED)
(in thousands of dollars)

	Six Months (26 weeks) Accumulated Other						
	Common Stock		Comprehensive Income (Loss)				Total Shareholders Equity
	Shares Issued	Amount	Foreign Currency Translation Adjustment	Employee Benefit Related	Additional Paid-in Capital	Retained Earnings	
April 28, 2007, previously reported	20,291	\$ 203	\$ 22,654	\$ (5,240)	\$	\$ 221,928	\$ 239,545
Cumulative effect of adoption of FIN No. 48						(1,562)	(1,562)
April 28, 2007, restated	20,291	203	22,654	(5,240)		220,366	237,983
Net loss						(33,593)	(33,593)
Adjustment for foreign currency translation, net of tax of \$1,624			4,094				4,094
Employee benefit plan related adjustment, net of tax of \$(109)				(194)			(194)
Comprehensive loss, net of tax							(29,693)
Stock-based compensation:							
Performance shares/units	130	2				513	515
Stock options						(127)	(127)
Restricted stock and other	31					186	186
October 27, 2007	20,452	\$ 205	\$ 26,748	\$ (5,434)	\$ 572	\$ 186,773	\$ 208,864

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

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HANDLEMAN COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX-MONTH PERIODS ENDED OCTOBER 27, 2007 and OCTOBER 28, 2006

(UNAUDITED)

(in thousands of dollars)

	Six Months (26 weeks) Ended	
	October 27, 2007	October 28, 2006
Cash flows from operating activities:		
Net loss	\$ (33,593)	\$ (20,180)
Adjustments to reconcile net loss to net cash (used by) provided from operating activities:		
Depreciation	8,464	8,095
Amortization of definite-lived intangible assets	3,842	4,612
Recoupment of development costs/licensed rights	3,999	3,021
Impairment of equity investment	3,454	
Gain on sale of investment	(957)	
Loss on disposal of property and equipment	886	243
Unrealized investment income	(215)	(26)
Stock-based compensation	454	2,617
Retirement plans curtailment/settlement charges	260	1,064
Changes in operating assets and liabilities:		
Increase in accounts receivable	(12,680)	(30,383)
Increase in merchandise inventories	(34,090)	(81,146)
Increase in other operating assets	(9,857)	(6,718)
Increase in accounts payable	55,389	139,571
Increase (decrease) in other operating liabilities	9,840	(5,269)
Total adjustments	28,789	35,681
Net cash (used by) provided from operating activities	(4,804)	15,501
Cash flows from investing activities:		
Additions to property and equipment	(3,627)	(10,925)
Software development costs and distribution/license advances	(10,086)	(5,128)
Proceeds from sale of investment	957	
Proceeds from disposition of property and equipment	11	1
Cash investment in REPS LLC		(1,052)
Other equity investments		(1,137)
Net cash used by investing activities	(12,745)	(18,241)
Cash flows from financing activities:		
Issuances of debt	1,901,751	2,233,688
Repayments of debt	(1,894,220)	(2,224,688)
Financing related fees	(6,834)	
Checks issued in excess of cash balances		3,075
Cash dividends		(3,223)
Cash proceeds from stock-based compensation plans	120	76

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Net cash provided from financing activities	817	8,928
Effect of exchange rate changes on cash	2,248	341
Net (decrease) increase in cash and cash equivalents	(14,484)	6,529
Cash and cash equivalents at beginning of period	18,457	10,346
Cash and cash equivalents at end of period	\$ 3,973	\$ 16,875

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

In the opinion of management, the accompanying Consolidated Balance Sheets and Consolidated Statements of Operations, Shareholders' Equity and Cash Flows contain all adjustments, including normal recurring adjustments, necessary to present fairly the financial position of the Company as of October 27, 2007, and the results of operations and changes in cash flows for the six months then ended. Because of the seasonal nature of the Company's business, revenues and earnings results for the six months ended October 27, 2007 are not necessarily indicative of what the results will be for the full year. The Consolidated Balance Sheet as of April 28, 2007 included in this Form 10-Q was derived from the audited consolidated financial statements of the Company included in the Company's fiscal year 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Reference should be made to the Company's Form 10-K for the year ended April 28, 2007, including the discussion of the Company's critical accounting policies. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

2. New Accounting Pronouncements

SFAS No. 157

In September 2006, Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, was issued by the Financial Accounting Standards Board (FASB). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements; however, this pronouncement does not require any new fair value measurements. SFAS No. 157 will be effective for the Company's fiscal year beginning May 4, 2008. The Company is currently evaluating the impact of this pronouncement on its consolidated financial statements.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115. SFAS No. 159 allows companies to irrevocably elect to recognize most financial assets and financial liabilities at fair value on an instrument-by-instrument basis. Unrealized gains and losses will be reported in earnings at each reporting date. The cumulative effect of re-measuring such instruments to fair value at adoption is accounted for as an adjustment to the beginning balance of retained earnings. SFAS No. 159 will be effective for the Company's fiscal year beginning May 4, 2008, and is not expected to have a significant impact on the Company's consolidated financial statements.

FIN No. 48

In June 2006, Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, was issued by the FASB. FIN No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest (that will be classified in the Company's financial statements as interest expense, consistent with the Company's current accounting policy) and penalties, accounting in interim periods, disclosure and transition. Upon adoption of FIN No. 48 as of April 29, 2007, the Company increased its existing income tax reserves by \$1,562,000, largely due to foreign and state income tax matters. The increase was recorded as a cumulative effect adjustment to the opening balance of retained earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

As of October 27, 2007, the Company had \$4,245,000 of unrecognized tax benefits. If recognized, approximately \$3,479,000 would be recorded as a component of income tax expense and the additional \$766,000 would be recorded as interest and penalties. In the first and second quarters of fiscal 2008, the Company increased its unrecognized tax benefits by \$728,000 and \$639,000, respectively, due to the addition of income tax reserves and interest on previously recorded reserves. The increase in unrecognized tax benefits during the second quarter of fiscal 2008 mainly resulted from the reevaluation of facts and circumstances related to a tax uncertainty identified during the adoption of FIN No. 48 in the first quarter of this fiscal year. Upon reevaluation, management determined that a reserve amount was appropriate on this tax uncertainty and accordingly, additional income tax expense of \$0.8 million was recorded in the second quarter of fiscal 2008. Management also determined that this amount did not materially impact the financial results for either the first quarter, second quarter or six-month period of this fiscal year.

With the adoption of FIN No. 48, the Company will continue to include interest expense and penalties related to income tax contingencies in income before income taxes in its Consolidated Statements of Operations.

In many instances, the Company's uncertain positions are related to tax years that remain subject to examination by the relevant tax authorities. The following table summarizes these open tax years by major jurisdiction as of October 27, 2007:

Jurisdiction	Open Tax Year		Examination	
	Examination		not yet	
	in Progress		Initiated	
United States *	2003	2005	2006	2007
Canada *	2000	2005	2006	2007
United Kingdom	N/A		2004	2007

* Includes federal as well as state or provincial jurisdictions, as applicable.

Based on the outcome of these examinations, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns will materially change from those recorded as liabilities for uncertain tax positions in our financial statements. In addition, the outcome of these examinations may impact the valuation of certain deferred tax assets (such as net operating losses and credit carryforwards) in future periods. Based on the number of tax years currently under audit by the relevant federal, state and foreign authorities, the Company anticipates that some of these audits may be finalized in the foreseeable future.

During the next 12 months, the Company expects to settle the United States Federal Tax Audit, a Canadian Federal Tax Audit and a State Tax Audit. The settlement of these audits should reduce the unrecognized tax benefits by approximately \$1,500,000.

FSP FIN No. 48-1

In May 2007, the FASB issued FASB Staff Position (FSP) FIN No. 48-1, Definition of Settlement in FASB Interpretation No. 48. FSP FIN No. 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

tax benefits. FSP FIN No. 48-1 is effective retroactively to April 28, 2007. The adoption of this standard did not have a significant impact on the Company's consolidated financial position or results of operations.

3. **ASDA Music Supply Arrangement**

On May 24, 2007, the Company announced that its subsidiary, Handleman UK Limited (Handleman UK), and United Kingdom (UK) retailer ASDA have decided not to continue their music supply arrangement. Under this arrangement, Handleman UK provided category management and distribution of music CDs and, to a limited extent, DVDs to ASDA stores. The decision not to continue the music supply arrangement was due to the inability of Handleman UK and ASDA to reach terms that were mutually beneficial. Music and DVD sales to ASDA represented \$56,300,000, or 10%, of the Company's consolidated revenues for the first six months of fiscal 2008 and \$268,000,000, or 20%, of the Company's consolidated revenues during fiscal 2007. Handleman UK provided music category management and distribution services to ASDA through August 2007.

Management determined that events leading up to and resulting in this separation represented a triggering event during the fourth quarter of fiscal 2007. Accordingly, the Company recorded an inventory markdown in the amount of \$9,000,000, representing the Company's best estimate of the adjustment necessary to mark inventory down to liquidation value. The amount was recorded in the fourth quarter of fiscal 2007 and was included in Direct product costs in the Company's fiscal 2007 Consolidated Statements of Operations. The Company still believes this inventory markdown is adequate; however, this estimate is subject to change as the Company continues to liquidate excess inventory. Handleman UK will continue to work with the music suppliers and its other customers in the UK, as well as other retailers, to sell off its remaining music inventory.

In addition, the Company recorded an impairment charge of \$734,000 related to fixed assets, because the carrying value of the asset group associated with the music category management and distribution activities exceeded its fair value. This impairment charge was also recorded in the fourth quarter of fiscal 2007 in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, and was included in Selling, general and administrative expenses in the Company's fiscal 2007 Consolidated Statements of Operations.

The Company estimates, although it cannot make any assurances, that additional one-time costs related to the termination of its music supply agreement will not exceed \$4,000,000. In accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, shut down costs associated with this termination will be recorded in fiscal 2008 as incurred. For the first six months of fiscal 2008, the Company has incurred \$1,105,000 in one-time costs related to the discontinuance of the ASDA business. These amounts were included in Selling, general and administrative expenses in the Company's Consolidated Statements of Operations. In the UK, there is a statutory obligation for companies to pay severance, upon termination, to employees who will neither be transferred to a new organization (if applicable) under the Transfer of Undertakings (Protection of Employment) regulations, nor be retained by the existing company in some other capacity. This statutory requirement is the equivalent of a benefit plan and is subject to the guidance in SFAS No. 112, Employers Accounting for Postemployment Benefits, an amendment of FASB Statements No. 5 and 43, because there is a mutual understanding between the employee and the company. Accordingly, the Company accrued severance costs of \$155,000 and \$68,000 in the first and second quarters of fiscal 2008, respectively. These amounts were included in Selling, general and administrative expenses in the Company's Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

As of October 27, 2007, the reduction in working capital attributable to the exited ASDA activities was approximately \$35,500,000.

4. Accounts Receivable

The table below summarizes the components of accounts receivable balances included in the Company's Consolidated Balance Sheets (in thousands of dollars):

	October 27, 2007	April 28, 2007
Trade accounts receivable	\$ 266,571	\$ 248,866
Less allowances for:		
Gross profit impact of estimated future returns	(9,130)	(8,719)
Doubtful accounts	(5,363)	(4,078)
Accounts receivable, net	\$ 252,078	\$ 236,069

5. Goodwill and Intangible Assets*Goodwill*

The Company accounts for goodwill and intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Accordingly, the Company performs an annual impairment test for goodwill and other intangible assets with indefinite lives in the fourth quarter of each fiscal year or as business conditions warrant a review. The goodwill test for impairment is conducted on a reporting unit level, whereby the carrying value of each reporting unit, including goodwill, is compared to its fair value. Fair value is estimated using the present value of free cash flows method. The Company recorded no goodwill impairment during the first six months of fiscal 2008.

Goodwill represents the excess of consideration paid over the estimated fair values of net assets of businesses acquired. Goodwill included in the Company's Consolidated Balance Sheets as of October 27, 2007 and April 28, 2007 was \$36,938,000, which was net of amortization of \$1,224,000 at each of these balance sheet dates. The category management and distribution operations reporting segment had goodwill related to the UK reporting unit of \$3,406,000 (which was net of amortization of \$1,224,000), at each of these balance sheet dates, while the video game operations and all other reporting segments had the remaining \$26,629,000 and \$6,903,000, of goodwill, respectively.

Intangible Assets

Intangible assets relate to Crave Entertainment Group, Inc. (*Crave*) and REPS LLC (*REPS*) and represent all of the intangible assets of the Company. The Company performs annual impairment analyses, or as business conditions warrant a review, comparing the carrying value of its intangible assets with the future economic benefit of these assets. Based on such analyses, the Company adjusts, as necessary, the value of its intangible assets. The Company recorded no significant impairments during the first six months of fiscal 2008.

The Company, through its video game operations segment, distributes video game software that is internally developed, as well as video game software that is purchased from other developers.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Internally Developed Video Game Software

Crave, through one of its subsidiary companies, publishes video game titles under the Crave brand name. These titles support Sony, Nintendo and/or Microsoft video game platforms and are distributed by Crave. As a result, Crave incurs obligations to contracted video game software developers and, in some cases, obligations to intellectual property right holders.

Under its software development agreements, payments are typically based on the achievement of defined milestones, which vary by agreement. Such milestones include payments due at the signing of the agreements, design and/or technical achievements and delivery of completed product; these advances are typically not refundable. These developed games are the property of Crave. Software development costs are recorded in accordance with SFAS No. 86, which requires that these costs are capitalized once technological feasibility of a product is established and such costs are determined to be recoverable. Under this guidance, technological feasibility should be evaluated on a product-by-product basis. Payments prior to technological feasibility, or amounts otherwise related to software development that are not capitalized, should be charged immediately to research and development expense. Crave generally engages independent software developers experienced with the current video game platforms developed by the manufacturers. Due to the experience of the software developers and the established game platform technology, technological feasibility is already proven prior to the beginning of, or occurs very early in, the development cycle. Therefore, Crave typically does not incur any research and development costs. The Company did not incur any research and development costs for the six months ended October 27, 2007 and October 28, 2006 because technological feasibility related to the development of video game titles has been established prior to the start of game development.

Software development payments are classified as Intangible assets, net in the Company's Consolidated Balance Sheets. Commencing upon product release, these payments are amortized as royalty expense based upon the ratio of current revenues to total projected revenues, generally over a period of 18 months, and included in Direct product costs in the Company's Consolidated Statements of Operations. The Company performs quarterly analyses, comparing the carrying value of its software development costs with the expected sales performance of the specific products for which the costs relate. Management's judgments and estimates are utilized in the ongoing assessment of the recoverability of these advances. Based on such analyses, the Company adjusts, when necessary, the value of its software development costs.

Certain software development agreements may require Crave to make additional payments based on pre-defined sales volumes. Subject to these terms, once all advance payments to developers have been expensed, additional payments to developers may be required. These additional payments are accrued as royalties and included in Accrued and other liabilities in the Company's Consolidated Balance Sheets.

Under Crave's intellectual property licensing agreements, payments are made to licensors in exchange for the rights to utilize intellectual properties owned by the licensors (e.g. popular animated characters, including all designs, themes and story lines) that may be used in the development of video game software. Payments to licensors allow Crave the limited right to use these intellectual properties, and at no time does Crave take ownership of these intellectual properties. Advances under these licensing agreements typically occur at the signing of the agreements and are not refundable. License advance payments are classified as Intangible assets, net in the Company's Consolidated Balance Sheets. Commencing upon product release, these payments are amortized as royalty expense based upon the ratio of current revenues to total projected revenues, generally over a period of 18 months, and included in Direct product

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

costs in the Company's Consolidated Statements of Operations. The Company performs quarterly analyses comparing the carrying value of its license advances with the expected sales performance of the specific products to which the costs relate. Management's judgments and estimates are utilized in the ongoing assessment of the recoverability of these advances. Based on such analyses, the Company adjusts, when necessary, the value of its license advances. Certain intellectual property licensing agreements may require Crave to make additional payments based on sales volumes. Subject to these terms, once all advance payments to licensors have been expensed, additional payments to licensors may be required. These additional payments are accrued as royalties and are included in Accrued and other liabilities in the Company's Consolidated Balance Sheets.

Purchased Video Game Software

Crave also purchases video game software from other software developers that support Sony, Nintendo and Microsoft video game platforms. As a distributor, Crave occasionally enters into exclusive distribution agreements with these video game suppliers. Under these exclusive distribution agreements, Crave has the right to sole distribution of the agreed upon video software games. The agreements vary by supplier, and may obligate Crave to pay minimum distribution fees or purchase a specified number of units over a designated period of time. Payments under these exclusive distribution agreements are usually made at the time the agreements are signed, at the time of manufacturing, or in some instances, at the time of product receipt by Crave. These exclusive distribution advances are classified as Intangible assets, net in the Company's Consolidated Balance Sheets and are amortized as royalty expense based upon sales of product purchased from these suppliers, and included in Direct product costs in the Company's Consolidated Statements of Operations. Under certain of these exclusive distribution agreements, additional payments to these suppliers may be required if pre-defined minimum purchase volumes are exceeded. These additional payments are also classified as Intangible assets, net in the Company's Consolidated Balance Sheets. Management's judgments and estimates are utilized in the ongoing assessment of the recoverability of these advances.

The Company's future minimum payment commitments related to all of these agreements, as discussed above, are \$11,642,000 as of October 27, 2007. Accrued royalties as of October 27, 2007 and April 28, 2007 totaled \$1,099,000 and \$482,000, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The following information relates to intangible assets subject to amortization as of October 27, 2007 and April 28, 2007 (in thousands of dollars):

Amortized	October 27, 2007		April 28, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible Assets				
Trademarks	\$ 7,900	\$ 2,866	\$ 7,900	\$ 2,182
Customer relationships	28,100	9,949	28,100	7,547
Non-compete agreements	3,970	2,435	3,970	1,849
Software development costs and distribution/license advances	28,872	14,743	18,785	10,744
Total	\$ 68,842	\$ 29,993	\$ 58,755	\$ 22,322

Amortized	October 27, 2007		April 28, 2007	
	Net Amount	Weighted Average Amortization Period	Net Amount	Weighted Average Amortization Period
Intangible Assets				
Trademarks	\$ 5,034	180 mos.	\$ 5,718	180 mos.
Customer relationships	18,151	227 mos.	20,553	227 mos.
Non-compete agreements	1,535	41 mos.	2,121	41 mos.
Software development costs and distribution/license advances	14,129	14 mos.	8,041	17 mos.
Total	\$ 38,849	122 mos.	\$ 36,433	141 mos.

Royalty expense related specifically to software development costs and licensed rights included in Recoupment of development costs/licensed rights in the Company's Consolidated Statements of Cash Flows is as follows (in thousands of dollars):

Royalty Expense	Six Months Ended	
	October 27, 2007	October 28, 2006
Software development costs, including write down to net realizable value of \$290 for fiscal year 2008 and \$750 for fiscal 2007	\$ 2,372	\$ 2,589
Exclusive distribution rights	1,118	
Licensed intellectual property rights, including write down to net realizable value of \$38 for fiscal year 2008 and \$0 for fiscal year 2007	509	432
Total	\$ 3,999	\$ 3,021

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The Company's aggregate amortization expense related to all intangible assets for the first six months of fiscal 2008 and fiscal 2007 totaled \$7,671,000 and \$7,463,000, respectively. The Company estimates future aggregate amortization expense as follows (in thousands of dollars):

Fiscal Years	Amounts
2008	\$ 9,318
2009	14,135
2010	3,737
2011	2,771
2012	2,083
Thereafter	6,805
Total	\$ 38,849

6. Debt

On April 30, 2007, Handleman Company and certain of its subsidiaries entered into two multi-year, secured credit agreements with GE Capital and Silver Point Finance. Company borrowings under the agreements are limited to \$40,000,000 plus the collateral value of certain assets less reserves, with a maximum of \$250,000,000. On the same day, the Company terminated its amended and restated credit agreements dated November 22, 2005 with its lenders and repaid all amounts outstanding under those agreements. Absent a new multi-year credit facility, the Company would have violated covenants under its previous credit agreement.

On October 27, 2007, the Company had borrowings of \$114,440,000 against its new agreements, of which \$24,440,000 was borrowed under its revolving facility and \$90,000,000 was borrowed under its term loans. The Company's borrowings under these credit agreements, which mature in April 2012, contain subjective acceleration clauses, and accordingly, have been classified as a current liability as of October 27, 2007, in accordance with FASB Technical Bulletin 79-3, Subjective Acceleration Clause in Long-Term Debt Agreements. The maximum borrowings allowed by the agreements on October 27, 2007 was \$182,000,000, based on the collateral value of the Company's assets. The Company had borrowings of \$106,897,000 as of April 28, 2007 under the old debt agreements that were all classified as current due to the planned termination of that agreement.

The significant terms of the new credit agreements are as follows:

GE Capital Credit Agreement

Handleman Company and certain subsidiaries of Handleman Company; General Electric Corporation, as Administrative Agent, Agent and Lender; and GE Capital Markets, Inc. as Lead Arranger, entered into a Credit Agreement dated April 30, 2007 (GE Capital Credit Agreement). Pursuant to this new five-year credit agreement, Handleman may borrow up to \$110,000,000 in the aggregate for the purpose of providing (a) working capital financing for Handleman and its subsidiaries, (b) funds to repay certain existing indebtedness of Handleman and its subsidiaries, (c) funds for general corporate purposes of Handleman and its subsidiaries, and (d) funds for other purposes permitted by the GE Capital Credit Agreement. Pursuant to the GE Capital Credit Agreement, Handleman has granted to General Electric Capital Corporation, as agent, a security interest in and lien upon all of the Company's existing and after-acquired personal and real property.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The material terms of the GE Capital Credit Agreement are as follows:

Amount	\$110,000,000
Maturity	5 years
Interest Rate	Libor plus range of 150 to 200 basis points or prime rate plus 0 to 50 basis points based on the performance grid as stated in the GE Capital Credit Agreement
Unused Fee	.50%
Collateral	First priority security interest in all accounts receivable and inventory
	Second priority interest in all Term Priority Collateral
Covenant	Restrictions on distributions and dividends, acquisitions and investments, indebtedness, prepayments, liens and affiliate transactions, capital structure and business, guaranteed indebtedness and asset sales as stated in the GE Capital Credit Agreement

Silver Point Finance Credit and Guaranty Agreement

Handleman Company and certain Handleman subsidiaries, as Guarantors; certain lenders; Silver Point Finance, LLC (Silver Point), as administrative agent for the Lenders, in such capacity as Administrative Agent, as Collateral agent and as co-lead arranger entered into a Credit and Guaranty Agreement dated April 30, 2007 (Silver Point Finance and Guaranty Agreement). Pursuant to this new five-year agreement, Handleman may borrow up to \$140,000,000 comprised of (a) \$50,000,000 aggregate principal amount of Tranche A Term Loan (Term Loan A), (b) \$40,000,000 aggregate principal amount of Tranche B Term Loan (Term Loan B), and (c) up to \$50,000,000 aggregate principal amount of Revolving Commitments (Revolving Facility), the proceeds of which shall be used to (i) repay the existing indebtedness and the existing intercompany note, (ii) finance the working capital needs and general corporate purposes of Handleman and its subsidiaries, and (iii) pay fees and expenses associated with the loan transaction and refinancing. Handleman has secured the obligations by granting liens against substantially all of its assets.

The material terms of the Silver Point Finance Credit and Guaranty Agreement are as follows:

	Revolving	Term	Term
	Facility	Loan A	Loan B
Amount	\$50,000,000	\$50,000,000	\$40,000,000
Maturity	5 years	5 years	5 years
Interest Rate	Libor plus 400 basis points or prime rate plus 300 basis points	Libor plus 400 basis points or prime rate plus 300 basis points	Libor plus 600 basis points or prime rate plus 500 basis points
Unused Fee	2.00%		
Collateral	Second priority interest in all accounts receivable and inventory that secures the GE Facility on a first priority basis and second priority interest in	Second priority interest in all accounts receivable and inventory that secures the GE Facility on a first priority basis and second priority interest in	First priority interest in all tangible and intangible assets (including, without limitation, all owned real estate), except the GE Collateral

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the Term Priority Collateral

the Term Priority Collateral

Third priority security interest
in all GE Collateral

Third priority security interest
in all GE Collateral

Third priority security interest in
all GE Collateral

Optional Prepayment

Prepayment premium of 2% on or after 24 months but prior to 36 months; 1.0% prepayment premium on or after 36 months but prior to 48 months; 0% prepayment premium on or after 48 months

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

Covenants to Credit Agreements

Pursuant to the GE Capital Credit Agreement and the Silver Point Finance Credit and Guaranty Agreement, Handleman must maintain a minimum excess availability, which is subject to increase, in order to borrow under these agreements if the Company does not achieve established EBITDA (earnings before interest, taxes, depreciation and amortization) levels on a trailing twelve-month basis.

Amendments to Credit Agreements

In June 2007, the Company and its lenders entered into a waiver and amendment to the new credit agreements. This waiver and amendment extended the due date for certain post closing matters.

In September 2007, the Company and its lenders entered into a second amendment to the new credit agreements. This amendment suspended the daily sweep of all U.S. customer receipts to GE Capital until the Company borrows from GE Capital and extended the period that allows the Company's UK and Canadian cash balance ceiling limits to include outstanding checks.

In November 2007, the Company and its lenders entered into a third amendment to the new credit agreements. This amendment revised the agreements to reflect the merger between two of the Company's subsidiaries, Handleman Entertainment Resources LLC and Handleman Services Company (thereafter known as Handleman Services Company). In addition, this amendment further extended the period that allows the Company's UK and Canadian cash balance ceiling limits to include outstanding checks. This amendment also waived two instances when the Company's Canadian cash balance exceeded authorized limits and waived the delivery of copies of certain provincial and corporate tax returns sent to the lenders no later than 15 days after their filing. These defaults were cured prior to the filing of this Form 10-Q.

7. Derivatives and Market Risk

Derivative Financial Instruments

In the normal course of business, Handleman Company is exposed to market risk associated with changes in interest rates and foreign currency exchange rates. To manage a portion of these inherent risks, the Company may purchase certain types of derivative financial instruments, from time to time, based on management's judgment of the trade-off between risk, opportunity and cost. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Currency Forward Contracts

The Company's business is primarily denominated in U.S. dollars. The Company typically does not enter into any contracts to hedge this risk.

8. Pension Plan

The Company has two qualified defined benefit pension plans (pension plans) that cover substantially all full-time U.S. and Canadian employees. In addition, the Company has two nonqualified defined benefit plans, U.S. and Canadian Supplemental Executive Retirement Plans (SERPs), which cover select employees.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

During the first quarter of fiscal 2008, the Company paid \$495,000 in lump sum payments to certain non-executive active and terminated employees from the U.S. SERP Rabbi Trust. Accordingly, a settlement loss of \$260,000 was recorded in the first quarter of fiscal 2008. In accordance with SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132(R), the Company calculated the settlement losses and remeasured the plan assets and benefit obligations resulting from the lump sum payments to the plan participants. As a result of remeasurement, the Company recorded an increase of \$101,000 to the unfunded status of the U.S. SERP in the first quarter of fiscal 2008.

During the first quarter of fiscal 2007, the Company's Board of Directors approved amendments to freeze the Company's U.S. pension plan and U.S. SERP. Accordingly, during the first quarter of fiscal 2007, the Company recorded non-cash curtailment charges of \$680,000 and \$384,000 related to the Company's U.S. pension plan and U.S. SERP, respectively. These charges were calculated in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, using actuarial assumptions as of July 29, 2006. SFAS No. 88 requires curtailment accounting if an event eliminates, for a significant number of employees, the accrual of defined benefits for some or all of their future services. In the event of a curtailment, a loss must be recognized for the unrecognized prior service cost associated with years of service no longer expected to be rendered.

The information below, for all periods presented, combines U.S. and Canadian pension plans and U.S. and Canadian SERPs. Components of net periodic benefit cost are as follows (in thousands of dollars):

	Pension Plans		SERPs	
	Three Months Ended		Three Months Ended	
	October 27, 2007	October 28, 2006	October 27, 2007	October 28, 2006
Service cost	\$ 116	\$ 455	\$ 6	\$ 126
Interest cost	885	832	74	134
Expected return on plan assets	(893)	(1,090)		
Amortization of unrecognized prior service cost, actuarial loss and other	25	35	9	5
Net periodic benefit cost	\$ 133	\$ 232	\$ 89	\$ 265

	Pension Plans		SERPs	
	Six Months Ended		Six Months Ended	
	October 27, 2007	October 28, 2006	October 27, 2007	October 28, 2006
Service cost	\$ 206	\$ 896	\$ 9	\$ 234
Interest cost	1,747	1,685	147	277
Expected return on plan assets	(1,762)	(2,205)		
Amortization of unrecognized prior service cost, actuarial loss and other	45	189	15	76
Settlement/curtailment loss		680	260	384
Net periodic benefit cost	\$ 236	\$ 1,245	\$ 431	\$ 971

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

For the six months ended October 27, 2007, contributions to the Company's defined benefit pension plans were \$278,000. The Company anticipates contributing an additional \$255,000 to the pension plans in the remainder of fiscal 2008, for a total contribution of \$533,000. These amounts represent contributions to the Canadian pension plan only. The Company does not expect to contribute to either the U.S. pension plan or Canadian SERP in fiscal 2008.

9. Contingencies
Contingencies

The Company has a contingent liability with a certain state taxing authority related to the filing and payment of franchise taxes. The Company feels it has filed and paid these taxes appropriately and has filed a protest with this taxing authority. The outcome of this matter is unknown. The Company believes its potential exposure is in the range of zero to \$2,800,000. However, because no assurance can be given to the resolution of this unresolved issue, as they are neither probable nor estimatable, no accrual has been recorded for this item.

The Company has the following contingent liabilities related to its acquisition of Crave during fiscal 2006: (i) up to \$21,000,000 in earn out payments that are payable based upon Crave's adjusted EBITDA for the calendar years 2005, 2006 and 2007, as those figures are calculated for each of such years; and (ii) up to \$2,000,000 to be paid on or about January 2, 2008, if three certain Crave employees remain with that entity through December 31, 2007. In the third quarter of fiscal 2007, one of the three previously mentioned Crave employees departed, thereby reducing the \$2,000,000 contingent liability to \$1,500,000. The Company is accruing this liability over 25 months with the related expense included in Selling, general and administrative expenses in the Company's Consolidated Statements of Operations. An adjustment in the third quarter of fiscal 2007, in the amount of \$260,000, was recorded to reflect the reduction in this contingent liability. No earn out payments were achieved by Crave for calendar years 2005 and 2006, and the Company does not expect any earn out payments to be achieved by Crave for calendar 2007.

During fiscal 2006, the Company recorded investment income of approximately \$4,300,000 related to a gain on the sale of an investment in PRN, a company that provides in-store media networks. Under the terms of the sale agreement, the Company received additional proceeds of \$957,000 during the first quarter of fiscal 2008 and may receive an additional \$400,000 through September 2009, subject to general and tax indemnification claims.

On May 22, 2007, Handleman Company's Compensation Committee adopted Handleman Company's Key Employee Retention Plan (KERP) for executive officers and certain other employees. Management identified 53 key employees for the KERP based on (i) a high risk of the employee terminating his/her employment relationship with Handleman; (ii) the employee being critical to Handleman's success; (iii) the employee's job performance rating of good or better; (iv) the difficulty for management to replace the knowledge, skills and abilities the employee provides Handleman; and (v) the impact suffered by Handleman as a result of the employee terminating his/her employment relationship with Handleman exceeding the cost of retaining the employee. Management determined each employee's total KERP potential payout by taking a percentage, ranging from 20% to 75%, of the employee's base salary as of May 22, 2007. The key employees will receive 25% of the total payout if the employee is employed by Handleman up to and on December 15, 2007; and the remaining 75% of the total payout if the employee is employed by Handleman up to and on March 15, 2009. As of October 27, 2007, 51 of the 53 employees originally identified remain employed by the Company. The cost associated with the KERP for full payouts to all key employees would total \$3,080,000. The Company is accruing this liability over the vesting periods with the related expense included in Selling, general and administrative expenses in the Company's Consolidated Statements of Operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

On November 28, 2007, Handleman announced that Mr. Albert Koch will serve as Handleman's President and Chief Executive Officer through Handleman's engagement of AP Services, LLC. AP Services is affiliated with AlixPartners, a financial advisory firm, where Mr. Koch is Vice Chairman, Managing Director and Partner. In addition to an hourly rate and time commitment for services, Handleman has also agreed to pay AP Services a success fee that is equal to 5% of the increase in shareholder market capitalization from the inception of the agreement through the payment due date. The market capitalization on the inception date shall be determined by the number of outstanding shares (20,460,000 shares) multiplied by the average of the closing prices for the five trading days ending on November 28, 2007. The minimum success fee shall be an amount equal to 20% of the AP Services billing for Mr. Koch's time from the inception of the contract through the payment due date provided that such minimum shall not exceed 20% of the increase in market capitalization.

Litigation

The Company is not currently involved in any legal proceedings that are material or for which it does not believe it has adequate reserves. Any other legal proceedings in which the Company is involved are routine legal matters that are incidental to the business and the ultimate outcome of which is not expected to be material to future results of consolidated operations, financial position and cash flows. The Company establishes reserves for all claims and legal proceedings based on its best estimate of the amounts it expects to pay.

10. Comprehensive Loss

Comprehensive loss is summarized as follows (in thousands of dollars):

	Three Months Ended		Six Months Ended	
	October 27, 2007	October 28, 2006	October 27, 2007	October 28, 2006
Net loss	\$ (15,877)	\$ (14,237)	\$ (33,593)	\$ (20,180)
Changes in: Foreign currency translation adjustments	1,706	1,643	4,094	2,953
Employee benefit related adjustments, net of tax			(194)	
Minimum pension liability, net of tax				59
Interest rate swap, net of tax		(194)		(116)
Total comprehensive loss, net of tax	\$ (14,171)	\$ (12,788)	\$ (29,693)	\$ (17,284)

The table below summarizes the components of accumulated other comprehensive income (loss) included in the Company's Consolidated Balance Sheets (in thousands of dollars):

	October 27, 2007	April 28, 2007
Foreign currency translation adjustments	\$ 26,748	\$ 22,654
Employee benefit related adjustments	(5,434)	(5,240)
Total accumulated other comprehensive income	\$ 21,314	\$ 17,414

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

11. **Segment Information**

Effective with the second quarter of fiscal 2008, the Company has changed its reportable segments to reflect how the business is managed. A segment is a component of an enterprise that has discrete financial information that is regularly reviewed by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company's REPS LLC subsidiary is now being disclosed as a separate reporting segment as it does not meet the quantitative and qualitative criteria defined in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, to allow it to be aggregated with another segment for reporting purposes. Prior period results have been reclassified to conform to the new reporting segment structure.

The reportable segments of the Company are category management and distribution operations, video game operations and all other.

Within the category management and distribution operations business segment, the Company's revenues can be categorized as follows:

(i) Category Management Revenues – sales to customers who receive the full suite of category management services included with their purchase of Handleman-owned tangible products (primarily music); this suite of services includes assortment management utilizing the Company's category management systems and processes, product warehousing, ticketing, direct to store shipments, in-store field service and customer returns management; (ii) Greeting Cards Revenues – sales to customers who receive only certain category management services with the purchase of Handleman-owned greeting cards, including assortment management on replenishment orders, product warehousing, direct to store shipments, in-store field service and customer returns management; (iii) Fee-for-Services Revenues – revenues generated from the sale of services performed by the Company such as in-store field service and/or warehousing and distribution of customer-owned product; in these arrangements, the customer does not purchase tangible product from Handleman Company. For the six months ended October 27, 2007, revenues generated from full category management, greeting cards and fee-for-services represented 70%, 6% and 4% of the Company's consolidated revenues, respectively.

Within the video game operations business segment, the Company generates revenues from the sale and distribution of Handleman-owned video game hardware, software and accessories. Product is shipped directly to individual stores. For the first six months of fiscal 2008, revenues generated from the video game operations represented 19% of the Company's consolidated revenues.

The all other segment primarily represents the Company's REPS LLC operating segment. REPS provides in-store merchandising for home entertainment and consumer product brand owners at mass merchant, warehouse club and specialty retailers. Prior to the second quarter of fiscal 2008, the operating results for REPS were included in the category management and distribution operations reporting segment. For the first six months of fiscal 2008, revenues generated with external customers from the all other segment represented 1% of the Company's consolidated revenues.

The accounting policies of the segments are the same as those described in Note 1, Accounting Policies, contained in the Company's Form 10-K for the year ended April 28, 2007. The Company evaluates performance of its segments and allocates resources to them based on income before corporate allocations, interest expense, investment (loss) income and income taxes (segment income).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The tables below present information about reported segments for the three months ended October 27, 2007 and October 28, 2006 (in thousands of dollars):

	Category Management and Distribution Operations	Video Game Operations	All Other	Total
Three Months Ended October 27, 2007:				
Revenues:				
Category management music, video and other revenues	\$ 216,513	\$	\$	\$ 216,513
Greeting cards revenues	17,742			17,742
Fee-for-services revenues external customers	12,479		3,542	16,021
Fee-for-services revenues intersegment			7,280	7,280
Video game related distribution revenues		65,253		65,253
Total segment revenues	246,734	65,253	10,822	322,809
Depreciation and amortization	1,895	1,455	518	3,868
Segment income (loss)	9,047	1,364	(80)	10,331
Capital expenditures	1,344	24	(1)	1,367

	Category Management and Distribution Operations	Video Game Operations	All Other	Total
Three Months Ended October 28, 2006:				
Revenues:				
Category management music, video and other revenues	\$ 280,110	\$	\$	\$ 280,110
Fee-for-services revenues external customers	822		4,420	5,242
Fee-for-services revenues intersegment			6,924	6,924
Video game related distribution revenues		45,157		45,157
Total segment revenues	280,932	45,157	11,344	337,433
Depreciation and amortization	1,930	1,802	592	4,324
Segment income (loss)	15,815	(2,661)	(592)	12,562
Capital expenditures	5,909	163	36	6,108

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

The tables below present information about reported segments for the six months ended October 27, 2007 and October 28, 2006 (in thousands of dollars):

	Category Management and Distribution Operations	Video Game Operations	All Other	Total
Six Months Ended October 27, 2007:				
Revenues:				
Category management music, video and other revenues	\$ 416,215	\$	\$	\$ 416,215
Greeting cards revenues	33,229			33,229
Fee-for-services revenues external customers	22,879		7,218	30,097
Fee-for services revenues intersegment			13,007	13,007
Video game related distribution revenues		110,172		110,172
Total segment revenues	472,323	110,172	20,225	602,720
Depreciation and amortization	4,322	2,930	1,032	8,284
Segment income (loss)	12,141	307	(765)	11,683
Capital expenditures	2,404	26	51	2,481
Total assets	200,970	149,182	15,985	366,137

	Category Management and Distribution Operations	Video Game Operations	All Other	Total
Six Months Ended October 28, 2006:				
Revenues:				
Category management music, video and other revenues	\$ 485,080	\$	\$	\$ 485,080
Fee-for-services revenues external customers	1,446		8,434	9,880
Fee-for services revenues intersegment			14,250	14,250
Video game related distribution revenues		75,955		75,955
Total segment revenues	486,526	75,955	22,684	585,165
Depreciation and amortization	3,936	3,607	1,182	8,725
Segment income (loss)	17,983	(6,944)	(82)	10,957
Capital expenditures	9,760	286	44	10,090
Total assets	409,484	135,286	19,765	564,535

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

A reconciliation of total segment revenues to consolidated revenues, total segment depreciation and amortization expense to consolidated depreciation and amortization expense, total segment income to consolidated loss before income taxes, total segment capital expenditures to consolidated capital expenditures and total segment assets to consolidated assets as of and for the three and six months ended October 27, 2007 and October 28, 2006 is as follows (in thousands of dollars):

	Three Months Ended October 27,		Six Months Ended	
	2007	October 28, 2006	October 27, 2007	October 28, 2006
Revenues				
Total segment revenues	\$ 322,809	\$ 337,433	\$ 602,720	\$ 585,165
Elimination of intersegment revenues	(7,280)	(6,924)	(13,007)	(14,250)
Consolidated revenues	\$ 315,529	\$ 330,509	\$ 589,713	\$ 570,915
Depreciation and Amortization Expense				
Total segment depreciation and amortization expense	\$ 3,868	\$ 4,324	\$ 8,284	\$ 8,725
Corporate depreciation and amortization expense	2,034	1,989	4,022	3,982
Consolidated depreciation and amortization expense	\$ 5,902	\$ 6,313	\$ 12,306	\$ 12,707
Loss Before Income Taxes				
Total segment income	\$ 10,331	\$ 12,562	\$ 11,683	\$ 10,957
Interest expense	(3,090)	(1,495)	(6,374)	(3,276)
Investment (loss) income	(3,140)	470	(1,691)	476
Corporate expenses	(19,132)	(19,710)	(36,314)	(38,729)
Consolidated loss before income taxes	\$ (15,031)	\$ (8,173)	\$ (32,696)	\$ (30,572)
Capital Expenditures				
Total segment capital expenditures	\$ 1,367	\$ 6,108	\$ 2,481	\$ 10,090
Corporate capital expenditures	1,045	537	1,146	835
Consolidated capital expenditures	\$ 2,412	\$ 6,645	\$ 3,627	\$ 10,925
Assets				
Total segment assets			\$ 366,137	\$ 564,535
Corporate assets			302,242	176,358
Elimination of intercompany receivables and payables			(77,906)	(36,755)
Consolidated assets			\$ 590,473	\$ 704,138

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

12. Common Stock - Basic and Diluted Shares

A reconciliation of the weighted average shares used in the calculation of basic and diluted shares is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	October 27, 2007	October 28, 2006	October 27, 2007	October 28, 2006
Weighted average shares during the period - basic	20,359	20,268	20,286	20,197
Additional shares from assumed exercise of stock-based compensation				
Weighted average shares adjusted for assumed exercise of stock-based compensation - diluted	20,359	20,268	20,286	20,197