ARISTOTLE CORP
Form 10-Q
May 12, 2006

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 12, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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

FOR THE TRANSITION PERIOD FROM ___________________ TO _____________

COMMISSION FILE NUMBER 0-14669

THE ARISTOTLE CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

06902

(ZIP CODE)

(203) 358-8000

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether 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 [X]

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

Yes [ ] No [X]

As of May 12, 2006, 17,267,246 shares of Common Stock, 1,100,122 shares of Series I Preferred Stock and 10,984,971 shares of Series J Preferred Stock were outstanding.

THE ARISTOTLE CORPORATION

INDEX OF INFORMATION CONTAINED IN FORM 10-Q FOR THE

QUARTERLY PERIOD ENDED MARCH 31, 2006

PART I

ITEM 1. FINANCIAL STATEMENTS

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

Assets		March 31, 2006 (unaudited)	December 31, 2005	March 31, 2005 (unaudited)
Current assets:				
Cash and cash equivalents	$	1,999	1,803	795
Investments		13,258	12,856	4,131
Accounts receivable, net		19,381	14,530	16,866
Inventories		38,222	35,579	36,848
Prepaid expenses and other		7,013	8,026	6,032
Deferred income taxes		9,501	11,279	9,825
Total current assets		89,374	84,073	74,497
Property, plant and equipment, net		23,045	22,361	17,901
Goodwill		13,872	13,799	13,685
Deferred income taxes		2,712	2,712	9,047
Other assets		373	408	463
Total assets	$	129,376	123,353	115,593

Liabilities and Stockholders Equity				
Current liabilities:				
Current installments of long-term debt	$	589	606	115
Trade accounts payable		9,704	9,013	7,789
Accrued expenses		5,363	6,594	4,954
Income taxes		125	185	-
Accrued dividends payable		-	2,159	-
Total current liabilities		15,781	18,557	12,858
Long-term debt, less current installments		31,268	24,350	30,910
Stockholders equity:				
Preferred stock, Series I, convertible, voting, 11% cumulative, $6.00 stated value; $.01 par value; 2,400,000 shares authorized, 1,100,122, 1,100,122 and 1,096,622 shares issued and outstanding at March 31, 2006, December 31, 2005 and March 31, 2005, respectively		6,601	6,601	6,580
Preferred stock, Series J, non-voting, 12% cumulative, $6.00 stated value; $.01 par value; 11,200,000 shares authorized, 10,984,971 shares issued and outstanding		65,760	65,760	65,760
Common stock, $.01 par value; 20,000,000 shares authorized, 17,257,896, 17,242,996 and 17,148,979 shares issued and outstanding at March 31, 2006, December 31, 2005 and March 31, 2005, respectively		173	172	171
Additional paid-in capital		3,219	3,119	2,483
Retained earnings (accumulated deficit)		6,693	4,891	(3,301)
Accumulated other comprehensive earnings (loss)		(119)	(97)	132
Total stockholders equity		82,327	80,446	71,825
Total liabilities and stockholders equity	$	129,376	123,353	115,593

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except share and per share data)

(Unaudited)

			Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net sales		$	46,164	41,748
Cost of sales			28,565	25,685
	Gross profit		17,599	16,063
Selling and administrative expense			11,082	10,633
	Earnings from operations		6,517	5,430
Other (expense) income:				
Interest expense			(447)	(291)
Other, net			405	70
			(42)	(221)
	Earnings before income taxes		6,475	5,209
Income taxes:				
Current			722	465
Deferred			1,792	1,556
			2,514	2,021
	Net earnings		3,961	3,188
Preferred dividends			2,159	2,158
	Net earnings applicable to common stockholders	$	1,802	1,030

Earnings per common share:			
Basic	$	.10	.06
Diluted	$	.10	.06
Weighted average common shares outstanding:			
Basic		17,249,302	17,144,992
Diluted		17,494,518	17,407,253

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(Unaudited)

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Cash flows from operating activities:		
Net earnings	$ 3,961	3,188
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	435	429
Stock option compensation	40	149
Loss on sale of property, plant and equipment	-	1
Earnings in equity method investment	(402)	(73)
Deferred income taxes	1,792	1,556
Change in assets and liabilities:		
Accounts receivable	(4,851)	(4,274)
Inventories	(2,643)	(3,492)
Prepaid expenses and other	1,013	633
Other assets	(43)	70
Trade accounts payable	691	597
Accrued expenses and other liabilities	(1,305)	(851)
Net cash used in operating activities	(1,312)	(2,067)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,124)	(946)
Net cash used in investing activities	(1,124)	(946)

Cash flows from financing activities:			
Proceeds from issuance of long-term debt		6,933	6,000
Principal payments on long-term debt		(32)	(37)
Proceeds from issuance of stock under stock option plans		49	18
Preferred dividends paid		(4,318)	(4,316)
Net cash provided by financing activities		2,632	1,665
Net increase (decrease) in cash and cash equivalents		196	(1,348)
Cash and cash equivalents at beginning of period		1,803	2,143
Cash and cash equivalents at end of period	$	1,999	795
Supplemental cash flow information			
Interest	$	426	278
Income taxes	$	777	408

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Unaudited)

1.

Organization

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

Geneve Corporation (Geneve), a privately-held diversified financial holding company, and an affiliated entity held approximately 90% of Aristotle s voting power at March 31, 2006 and 2005.

2.

Financial Statement Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form

10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position as of March 31, 2006 and 2005 and results of operations and cash flows for the three months ended March 31, 2006 and 2005, as applicable, have been made. Operating results for the three months ended March 31, 2006 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

3.

Principles of Consolidation

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Unaudited)

4.

Recently Issued Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (the FASB) issued a revised Statement of Financial Accounting Standards (SFAS) No. 123, *Share-Based Payment* (SFAS 123R), which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R requires a company to measure the cost of employee services received in exchange for an award of equity instruments, such as stock options, based on the grant-date fair value of the award and to recognize these awards as an expense in the statement of earnings over the requisite service period. The grant-date fair value of employee stock options and similar instruments will be estimated using option-pricing models adjusted for unique characteristics of those instruments unless observable market prices for the same or similar instruments are available. SFAS 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), which was issued in October 1995. SFAS 123R is effective for all awards granted, modified, repurchased, or cancelled after the beginning of the first annual reporting period beginning after June 15, 2005. SFAS 123R provides transitional guidance for awards existing at the adoption date. Effective January 1, 2006, the Company adopted SFAS 123R using the modified prospective method. The adoption did not have a material impact on the Company's financial statements at March 31, 2006 and for the three months then ended since the Company has been expensing share based awards granted after January 1, 2002 under the provisions of SFAS 123.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs: an amendment of ARB No. 43* (SFAS 151), which clarifies that abnormal costs of idle facility expense, freight, handling costs and wasted material should be recognized as current period expenses. SFAS 151 also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have a material impact on the Company s financial statements at March 31, 2006 and for the three months then ended.

5.

Earnings per Common Share

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

Shares of Common Stock available for issue upon conversion of the 1,100,122 and 1,096,622 shares of Series I Preferred Stock outstanding at March 31, 2006 and 2005, respectively, were not dilutive and, therefore, have not been included in the computations of diluted earnings per common share amounts for the periods then ended.

6.

Investments

The Company has invested in a limited partnership, the general partner of which is an affiliate of the Company. The assets of this limited partnership are managed exclusively by a non-affiliate of the Company. The purpose of the limited partnership is to manage a diversified investment portfolio. No additional amounts were invested during each of the three months ended March 31, 2006 and 2005. The Company s investment is accounted for under the equity method of accounting, which equates the carrying value of the investment to the Company s equity in the partnership s underlying book value. The Company s equity earnings or loss is credited or charged, as appropriate, to other income within the Condensed Consolidated Statements of Earnings. For the three months ended March 31, 2006 and 2005, equity earnings amounted to $.4 million and less than $.1 million, respectively.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006

(Unaudited)

7.

Inventories

The classification of inventories at March 31 is as follows (in thousands):

		March 31, 2006	December 31, 2005	March 31, 2005
Raw materials	$	5,522	5,873	5,370
Work in process		1,246	1,173	1,081
Finished goods		32,900	29,846	31,709
Less inventory reserves		(1,446)	(1,313)	(1,312)
Net inventories	$	38,222	35,579	36,848

8.

Stockholders Equity and Comprehensive Earnings

Changes in stockholders equity for the three months ended March 31 are as follows (in thousands):

		2006	2005
	$	80,446	70,660

Balance at January 1			
Net earnings		3,961	3,188
Exercise of stock options, including related tax benefit of $12 and $6 for 2006 and 2005, respectively		61	24
Stock option compensation		40	149
Other comprehensive earnings:			
Foreign currency translation adjustment		(22)	(38)
Preferred dividends		(2,159)	(2,158)
Balance at March 31	$	82,327	71,825

Comprehensive earnings for the three months ended March 31 is as follows (in thousands):

		2006	**2005**
Net earnings	$	3,961	3,188