

ARISTOTLE CORP  
Form 10-Q  
November 12, 2009

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-Q**

(MARK ONE)

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

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009**

**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**

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

**06-1165854**

(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes   
No

As of November 10, 2009, 17,962,875 shares of Common Stock, 1,081,427 shares of Series I Preferred Stock and 10,984,971 shares of Series J Preferred Stock were outstanding.

**THE ARISTOTLE CORPORATION**

**INDEX OF INFORMATION CONTAINED IN FORM 10-Q FOR THE  
QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009**

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## PART I

## ITEM 1. FINANCIAL STATEMENTS.

## THE ARISTOTLE CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

Assets	September 30, 2009 (unaudited)	December 31, 2008	September 30, 2008 (unaudited)
Current assets:			
Cash and cash equivalents	\$ 29,690	15,290	7,138
Marketable securities	4,220	4,437	2,480
Investments	2,996	2,876	21,991
Accounts receivable, net	24,065	14,048	26,175
Inventories, net	39,716	44,653	42,388
Prepaid expenses and other	4,478	8,542	4,000
Income tax receivable	-	5,396	-
Deferred income taxes	4,070	4,644	1,788
Total current assets	109,235	99,886	105,960
Property, plant and equipment, net	27,530	27,808	28,429
Goodwill	14,162	13,712	14,186
Deferred income taxes	6,668	6,668	5,646

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Investments		4,318	4,318	4,318
Other assets		1,127	884	817
	Total assets	\$ 163,040	153,276	159,356

**Liabilities and Stockholders Equity**

Current liabilities:

Current installments of long-term debt	\$	309	294	299
Trade accounts payable		7,820	9,576	9,331
Accrued expenses		12,907	11,641	7,537
Income taxes		2,057	-	184
Accrued dividends payable		-	2,156	-
	Total current liabilities	23,093	23,667	17,351

Long-term debt, less current installments		10,126	10,364	10,434
Long term pension obligations		5,587	5,891	2,115
Other long-term accruals		2,489	2,467	2,458

Stockholders equity:

Preferred stock, Series I, 11% cumulative, \$6.00 stated value, \$.01 par value; 2,400,000 shares authorized, 1,081,427 shares issued and outstanding		6,489	6,489	6,489
Preferred stock, Series J, 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, 17,962,875 shares issued and outstanding		180	180	180
Additional paid-in capital		7,690	7,690	7,685
Retained earnings		43,262	34,979	46,985
Accumulated other comprehensive loss		(1,636)	(4,211)	(101)
	Total stockholders equity	121,745	110,887	126,998
	Total liabilities and stockholders equity	\$ 163,040	153,276	159,356

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)**

		<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
		<b>September 30,</b>		<b>September 30,</b>	
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales	\$	61,128	64,976	158,854	172,202
Cost of sales		37,089	40,123	95,440	105,116
Gross profit		24,039	24,853	63,414	67,086
Selling and administrative expense		12,669	13,178	36,607	36,795
Earnings from operations		11,370	11,675	26,807	30,291
Other (expense) income:					
Interest expense		(104)	(260)	(733)	(833)
Other, net		167	(428)	448	162
		63	(688)	(285)	(671)
Earnings before income taxes		11,433	10,987	26,522	29,620
Income taxes:					
Current		4,371	4,234	11,616	10,568
Deferred		95	(109)	156	564
		4,466	4,125	11,772	11,132
Net earnings		6,967	6,862	14,750	18,488
Preferred dividends		2,155	2,155	6,467	6,467
	\$	4,812	4,707	8,283	12,021



Net earnings applicable to  
common stockholders

Earnings per common share:

Basic	\$ .27	.26	.46	.67
Diluted	\$ .27	.26	.46	.67

Weighted average common shares outstanding:

Basic	17,962,875	17,962,875	17,962,875	17,962,209
Diluted	17,962,875	17,968,921	17,962,875	17,971,305

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)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net earnings	\$ 14,750	18,488
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	1,582	1,525
Stock option compensation	-	12
Earnings in equity method investment	(120)	(840)
(Gain) loss on sale of marketable securities	(210)	741
Impairment loss on marketable securities	174	306
Excess tax benefits from stock-based compensation	-	(24)
Deferred income taxes	183	563
Change in assets and liabilities:		
Accounts receivable	(10,018)	(10,544)
Inventories	4,937	(91)
Prepaid expenses and other	4,064	5,611
Income taxes receivable	5,396	-
Other assets	(703)	(96)
Trade accounts payable	(1,756)	(1,169)
Accrued expenses and other liabilities	5,325	719
Accrued pension obligations	(304)	(829)
Net cash provided by operating activities	23,300	14,372

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Cash flows from investing activities:		
Purchases of property, plant and equipment	(821)	(2,942)
Purchases of investments	-	(3,040)
Purchases of marketable securities	-	(1,635)
Proceeds from the sale of marketable securities	745	1,506
Net cash used in investing activities	(76)	(6,111)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	7,500
Principal payments on long-term debt	(223)	(5,727)
Proceeds from issuance of stock under stock option plans	-	94
Changes in other long-term accruals	22	29
Preferred dividends paid	(8,623)	(8,623)
Net cash used in financing activities	(8,824)	(6,727)
Net increase in cash and cash equivalents	14,400	1,534
Cash and cash equivalents at beginning of period	15,290	5,604
Cash and cash equivalents at end of period	\$ 29,690	7,138
Supplemental cash flow information		
Cash paid during periods for:		
Interest	\$ 642	766
Income taxes	\$ 4,146	9,822

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

**THE ARISTOTLE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2009**

(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 50 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 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 two affiliated entities held approximately 90% of Aristotle s voting power at September 30, 2009 and 2008. In October 2009, documents were mailed to the Company s stockholders describing a proposed short-form merger transaction pursuant to which the Company would be taken private by Geneve.

2.

Financial Statement Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position as of September 30, 2009 and 2008, results of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008, as applicable, have been made. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2009. 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, 2008.

### 3. Principles of Consolidation

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

### 4. Recently Issued Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 105-10, *Generally Accepted Accounting Principles - Overall* ( ASC 105-10 ). ASC 105-10 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ). Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the ASC carries an equal level of authority. The ASC superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the ASC is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Rather, it will issue Accounting Standards Updates ( ASU ). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the ASC, provide background information about the guidance and provide the bases for conclusions on the change(s) in the ASC. References made to FASB guidance throughout this document have been updated for the ASC.

**THE ARISTOTLE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2009**

(Unaudited)

ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of ASC 105-10 did not have a material impact on the Company's financial position or results of operations.

During the second quarter of 2009, the Company adopted FASB ASC 855-10, *Subsequent Events-Overall* (ASC 855-10), formerly known as Statement of Financial Accounting Standards (SFAS) No. 165, *Subsequent Events*. ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events, and whether that date represents the date the financial statements were issued or were available to be issued. This standard is effective for interim and annual periods ending after June 15, 2009. The adoption of ASC 855-10 did not have a material impact on the Company's financial position or results of operations.

During the fourth quarter of 2008, FASB issued updated guidance related to employers disclosures regarding postretirement benefit plan assets, which is included in ASC 715-20, *Defined Benefit Plans* (ASC 715-20), formerly known as FASB Staff Position No. 132(R)-1, *Employers' Disclosure about Postretirement Benefit Plan Assets*. ASC 715-20 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures required by ASC 715-20 are effective for the Company's financial statements issued for 2009. The adoption of this updated guidance did not have a material impact on the Company's financial position or results of operations.

During the first quarter of 2008, FASB issued updated guidance related to disclosures regarding derivatives and hedging activities, which is included in ASC 815-10, *Derivatives and Hedging - Overall* (ASC 815-10), formerly known as SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. ASC 815-10 requires enhanced disclosures about derivative instruments and hedging activities, and their effects on an entity's financial position, financial performance and cash flows. ASC 815-10 requires disclosure of objectives and strategies for derivative instruments, disclosure of the fair values of derivative instruments and their gains and losses in a tabular format and disclosure of contingent derivative features that are credit-risk related, and requires cross referencing within footnotes if the required disclosures are presented in more than one footnote. The updated guidance in ASC

815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of ASC 815-10 did not have a material impact on the Company's financial position or results of operations.

During the fourth quarter of 2007, FASB issued updated guidance regarding business combination transactions, which is included in ASC 805-10, *Business Combinations* (ASC 805-10), formerly known as SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R). ASC 805-10 establishes principles and requirements for recognition and measurement in the Company's financial statements of identifiable assets acquired, liabilities assumed, any non-controlling interest in the acquired entity and goodwill acquired in a business combination. ASC 805-10 also establishes disclosure requirements which will enable readers to evaluate the nature and financial effects of the business combination. The updated guidance in ASC 805-10 is effective for fiscal years beginning after December 15, 2008. The Company will apply the provisions of ASC 805-10 to the accounting treatment of business acquisitions completed after December 31, 2008.

Also in the fourth quarter of 2007, FASB issued ASC 810-10-65-1, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51* (ASC 810-10-65-1), formerly known as SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. ASC 810-10-65-1 requires noncontrolling (minority) interests in subsidiaries to be initially measured at fair value and presented as a separate component of stockholders equity. The presentation and disclosure provisions of ASC 810-10-65-1 are required to be applied on a retrospective basis. ASC 810-10-65-1 is effective for the Company beginning on January 1, 2009. The adoption of ASC-810-65-1 did not have a material impact on the Company's financial position or results of operations.

During the third quarter of 2006, FASB issued guidance included in ASC 820-10, *Fair Value Measurement* (ASC 820-10), formerly known as SFAS No. 157, *Fair Value Measurements*. ASC 820-10 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value. ASC 820-10 expands the disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to



**THE ARISTOTLE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2009**

(Unaudited)

initial recognition. The disclosures focus on the inputs used to measure fair value, the recurring fair value measurements using significant unobservable inputs and the effect of the measurement on earnings (or changes in net assets) for the period. During the first quarter of 2008, FASB issued guidance included in ASC 820-10 which delayed the effective date for non-financial assets and liabilities which are not measured at fair value on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008. The adoption of ASC 820-10 did not have a material impact on the Company's financial position or results of operations.

5. Earnings per C