

Edgar Filing: INFORMATION HOLDINGS INC - Form 10-Q

INFORMATION HOLDINGS INC  
Form 10-Q  
May 15, 2002

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

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FORM 10-Q

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

For the quarterly period ended: MARCH 31, 2002

Commission File Number: 1-14371

INFORMATION HOLDINGS INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

06-1518007  
(IRS Employer Identification Number)

2777 SUMMER STREET, SUITE 209  
STAMFORD, CONNECTICUT  
(Address of principal executive offices)

06905  
(Zip Code)

(203) 961-9106  
(Registrant's telephone number, including area code)

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 the past 90 days. /X/ Yes / / No

As of March 31, 2002, there were 21,782,091 shares of the Company's common stock, par value \$0.01 per share outstanding.

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INFORMATION HOLDINGS INC.

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As of March 31, 2002 (Unaudited) and December 31, 2001

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### INFORMATION HOLDINGS INC.

#### CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA)

	MARCH 31, 2002 (Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and equivalents	\$ 44,483
Short-term investments	14,352
Accounts receivable (NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS AND SALES RETURNS OF \$3,585 AND \$3,273, RESPECTIVELY)	36,526
Inventories	7,421
Prepaid expenses and other current assets	5,103
Deferred income taxes	3,423
Total current assets	111,308
Property and equipment, net	9,576
Pre-publication costs (NET OF ACCUMULATED AMORTIZATION OF \$6,498 AND \$5,758, RESPECTIVELY)	4,543
Identified intangible assets, net	106,317
Goodwill (NET OF ACCUMULATED AMORTIZATION OF \$7,075 AND \$6,624, RESPECTIVELY)	104,500
Other assets	9,109
	\$ 345,353
TOTAL	
LIABILITIES AND STOCKHOLDERS' EQUITY	

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CURRENT LIABILITIES:

Current portion of capitalized lease obligations	\$	504
Accounts payable		22,820
Accrued expenses		10,818
Royalties payable		1,330
Deferred revenue		20,986
		-----
Total current liabilities		56,458
Capital leases		1,827
Deferred income taxes		15,898
Other long-term liabilities		978
		-----
Total liabilities		75,161
		-----

STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	\$	-
Common stock, \$.01 par value; 50,000,000 shares authorized; issued and outstanding 21,782,091 shares at March 31, 2002 and 21,758,052 shares at December 31, 2001		218
Additional paid-in capital		246,351
Retained earnings		23,635
Accumulated other comprehensive loss		(12)
		-----
Total stockholders' equity		270,192
		-----
TOTAL	\$	345,353
		=====

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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INFORMATION HOLDINGS INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31,	
	----- 2002	----- 2001
Revenues	\$ 33,288	\$ 24,244
Cost of sales	9,271	5,574
	-----	-----
Gross profit	24,017	18,670
	-----	-----
Operating expenses:		
Selling, general and administrative	15,617	11,220
Depreciation and amortization	4,139	3,851
	-----	-----
Total operating expenses	19,756	15,071
	-----	-----

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Income from operations	4,261	3,599
	-----	-----
Other income (expense):		
Interest income	262	1,642
Interest expense	(136)	(136)
Other expense	-	(3)
	-----	-----
Income before income taxes	4,387	5,102
Provision for income taxes	1,573	2,098
	-----	-----
Net income	\$ 2,814	\$ 3,004
	=====	=====
Basic and diluted earnings per common share amounts:		
Net income	\$ 0.13	\$ 0.14
	=====	=====

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,	
	----- 2002	----- 2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,814	\$ 3,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,342	728
Amortization of goodwill	-	981
Amortization of other intangible assets	2,797	2,142
Amortization of pre-publication costs	797	634
Change in non-current deferred income tax liabilities	(413)	(204)
Other	34	37
Changes in operating assets and liabilities, net of effect of acquisitions:		
(Increase)decrease in accounts receivable, net	(1,396)	345
Increase in inventories	(98)	(37)
Decrease(increase) in prepaid and other current assets	473	(444)
Decrease in accounts payable and accrued expenses	(6,341)	(1,212)
Income tax benefit from stock options exercised	152	-
Net change in income taxes (receivable)payable	1,974	2,335
Increase in deferred revenue	2,693	845
Net change in other assets and liabilities	(734)	(347)
	-----	-----
Net Cash Provided by Operating Activities	4,094	8,807
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of businesses and equity interests	-	(23,891)
Purchases of property and equipment	(971)	(94)
Investment in pre-publication costs	(579)	(724)

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Sales (purchases) of short-term investments	3,410	(3,928)
Capitalized internal-use software	(257)	-
Proceeds from disposal of property and equipment	4	2
	-----	-----
Net Cash Provided by (Used in) Investing Activities	1,607	(29,535)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued from stock options exercised	288	46
Principal payments on capital leases	(118)	(75)
	-----	-----
Net Cash Provided by (Used in) Financing Activities	170	(29)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	5,871	(20,757)
	-----	-----
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	38,612	96,375
	-----	-----
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 44,483	\$ 75,618
	=====	=====

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

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### INFORMATION HOLDINGS INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

##### A. BASIS OF PRESENTATION

The consolidated balance sheet of Information Holdings Inc. (IHI, or the Company) at December 31, 2001 has been derived from IHI's Annual Report on Form 10-K for the year then ended. All other consolidated financial statements contained herein have been prepared by IHI and are unaudited. These consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2001 and the notes thereto contained in IHI's Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the consolidated financial position of IHI as of March 31, 2002, and the consolidated results of operations and cash flows for the periods presented herein. Results for the three months ended March 31, 2002 are not necessarily indicative of the results to be expected for the full fiscal year.

Certain reclassifications have been made to the financial statements of the prior period to conform to the March 31, 2002 presentation.

##### B. INVENTORIES

Inventories, consisting primarily of finished goods, are stated at the lower of cost (first-in, first-out method) or market. Shipping costs, which consist of transportation costs associated with the delivery of the Company's products to customers, and handling costs are included in Cost of sales. The vast majority of inventories are books, which are reviewed

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monthly on a title-by-title basis for salability. The cost of inventory determined to be impaired is charged to income in the period of determination.

### C. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARD

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, and the accounting and reporting provisions of APB No. 30, REPORTING THE RESULTS OF OPERATIONS FOR A DISPOSAL OF A SEGMENT OF A BUSINESS. SFAS No. 144 is effective for fiscal years beginning after December 15, 2002. The Company adopted SFAS No. 144 as of January 1, 2002. The adoption of SFAS No. 144 did not have a significant impact on the consolidated financial position, results of operations, or cash flows of the Company.

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### INFORMATION HOLDINGS INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### D. EARNINGS PER SHARE DATA

The following table sets forth the computation of basic and diluted earnings per common share for the periods indicated:

(IN THOUSANDS, EXCEPT PER SHARE DATA)	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Basic:		
Net income	\$ 2,814	\$ 3,004
Average common shares outstanding	21,760	21,615
	-----	-----
Basic EPS	\$ 0.13	\$ 0.14
	=====	=====
Diluted:		
Net income	\$ 2,814	\$ 3,004
	=====	=====
Average common shares outstanding	21,760	21,615
Net effect of dilutive stock options - based on the treasury stock method	191	178
	-----	-----
Total	21,951	21,793
	=====	=====
Diluted EPS	\$ 0.13	\$ 0.14
	=====	=====

During the first quarter of 2002, employees exercised stock options to acquire 24,039 shares at an exercise price of \$12.00 per share. For the three months ended March 31, 2002 and 2001, 287,823 and 330,208 stock options, respectively, were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

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### E. ACQUISITIONS

On December 20, 2001, the Company completed a tender offer and acquired all of the outstanding common shares of Liquent, Inc. (Liquent) for cash consideration equal to \$2.27 per share, or approximately \$41,100,000. Liquent is a leading provider of software and service solutions that aid in content assembly and publishing for the life sciences industry. The purchase price was allocated to net tangible assets of \$6,349,000, identified intangible assets of \$6,750,000 and non-deductible goodwill of \$25,592,000. The Company has obtained an independent appraisal of the fair value of the identified intangible assets and their remaining useful lives. The Company also recorded a deferred income tax asset as a result of Liquent's net operating loss carryforwards of \$5,010,000, offset by a deferred income tax liability as a result of the gross up of acquired intangible assets in the amount of \$2,565,000.

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### INFORMATION HOLDINGS INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

### E. ACQUISITIONS (CONTINUED)

On May 15, 2001, the Company acquired the stock of Parthenon Publishing Group (Parthenon), for cash consideration of approximately \$8,300,000. Parthenon, based in the United Kingdom, is a leading provider of medical and environmental reference products, including books, journals and medical communication services.

On March 29, 2001, the Company acquired the IDRAC business of IMS Health and entered into multiple perpetual agreements with IMS Health and certain affiliates, for aggregate cash consideration of approximately \$20,400,000. IDRAC, based in France, is a leading provider to pharmaceutical companies worldwide of regulatory and intellectual property information related to pharmaceutical product registrations.

All acquisitions have been accounted for using the purchase method of accounting and, accordingly, the results of their operations have been included in the Company's results of operations from their respective date of acquisition. In accordance with SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, no goodwill amortization was recorded for acquisitions after June 30, 2001, which include Liquent.

The following unaudited pro forma information presents the results of operations of the Company, as if the 2001 acquisitions of IDRAC and Liquent had taken place as of January 1, 2001, is as follows:

	THREE MONTHS ENDED
	-----
	MARCH 31,
	2001
(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Revenues	\$ 31,072
	=====
Net loss	\$ (650)
	=====

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Basic loss per common share	\$	(0.03)
	=====	
Diluted loss per common share	\$	(0.03)
	=====	

These pro forma results of operations have been prepared for comparative purposes only and do not purport to be indicative of the operating results that would have occurred had the acquisitions been consummated as of the above date, nor are they necessarily indicative of future operating results.

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### INFORMATION HOLDINGS INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

#### F. GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

In June 2001, the FASB issued SFAS No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, which requires the use of a non-amortization approach to account for purchased goodwill and intangible assets with indefinite lives. The Company was required to adopt SFAS No. 142 for acquisitions completed prior to July 1, 2001 on January 1, 2002. Effective January 1, 2002, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment.

During the year ended December 31, 2001, the Company began the required transitional impairment review of goodwill and intangible assets with indefinite lives. This review required the Company to estimate the fair value of its identified reporting units as of December 31, 2001. For each of the reporting units, the estimated fair value was determined utilizing the expected present value of the future cash flows of the units. In all instances, the estimated fair value of the reporting units exceeded their respective book values and therefore no write-down of goodwill or intangible assets with indefinite lives was required as of January 1, 2002. In addition, as of January 1, 2002, the Company ceased the amortization of goodwill and intangible assets with indefinite lives and reclassified the December 31, 2001 carrying value of its assembled workforce acquired intangible assets included in other identified intangibles to goodwill.

The following unaudited reconciliation presents pro forma net income, basic and diluted EPS as if SFAS No. 142 had been adopted on January 1, 2001, is as follows:

		THREE MONTHS ENDED
		-----
		MARCH 31,
		2001
(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Reported net income	\$	3,004
Adjustment for goodwill amortization, net of tax		637
Adjustment for trademark and tradename amortization, net of tax		78
		-----
Pro forma net income	\$	3,719
		=====
Basic:		



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Reported basic EPS	\$	0.14
Adjustment for goodwill amortization, net of tax		0.03
		-----
Pro forma basic EPS	\$	0.17
		=====
Diluted:		
Reported diluted EPS	\$	0.14
Adjustment for goodwill amortization, net of tax		.03
		-----
Pro forma diluted EPS	\$	0.17
		=====

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INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

F. GOODWILL AND IDENTIFIED INTANGIBLE ASSETS (CONTINUED)

Identified intangible assets and goodwill subject to amortization consisted of the following (in thousands):

	MARCH 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Trademarks and tradenames	\$ 11,129	\$ 1,878	\$ 9,251
Publishing rights	23,572	4,950	18,622
Customer lists and relationships	46,548	8,006	38,542
Databases and content	27,400	5,233	22,167
Other identified intangibles	10,632	1,704	8,928
	-----	-----	-----
	\$119,281	\$21,771	\$97,510
	=====	=====	=====

	DECEMBER 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Trademarks and tradenames	\$ 21,129	\$ 2,792	\$18,337
Publishing rights	23,572	4,611	18,961
Customer lists and relationships	46,548	7,039	39,509
Databases and content	27,400	4,479	22,921
Other identified intangibles	20,531	8,796	11,735
	-----	-----	-----
	139,180	27,717	111,463
Goodwill subject to amortization	82,367	6,624	75,743
	-----	-----	-----
	\$221,547	\$34,341	\$187,206
	=====	=====	=====

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Total amortization expense of goodwill and identified intangible assets amounted to \$2,797,000 and \$15,352,000 for the three months ended March 31, 2002 and the year ended December 31, 2001, respectively.

During the first quarter 2002, the Company removed from its Balance Sheet fully amortized other identified intangibles with a cost of approximately \$7,100,000.

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INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

F. GOODWILL AND IDENTIFIED INTANGIBLE ASSETS (CONTINUED)

Identified intangible assets and goodwill not subject to amortization consisted of the following (in thousands):

	MARCH 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Trademarks and tradenames	\$ 10,000	\$1,193	\$ 8,807
Goodwill	111,575	7,075	104,500
	\$121,575	\$8,268	\$113,307

	DECEMBER 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Goodwill	\$26,923	\$ -	\$ 26,923

Annual pretax amortization for identified intangible assets over the next five years is estimated to be as follows (in thousands):

Year ending December 31,

2003	\$11,088
2004	\$10,672
2005	\$10,293
2006	\$ 8,708
2007	\$ 8,556

The following table displays the change in the carrying amount of goodwill

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(in thousands):

Balance at December 31, 2001	\$102,666
	=====
Reclassification of assembled workforce, net	1,834
	-----
Balance at March 31, 2002	\$104,500
	=====

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### INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

#### G. SEGMENT INFORMATION

The Company has three reportable segments: intellectual property (IP), scientific and technology information (STI) and information technology learning (ITL). The intellectual property segment, which includes MicroPatent, Master Data Center, Liquent and IDRAC, provides a broad array of databases, information products and complementary services for intellectual property and regulatory professionals. The scientific and technology information segment is CRC Press, which publishes professional and academic books, journals, newsletters and electronic databases covering areas such as life sciences, environmental sciences, engineering, mathematics, physical sciences and business. The information technology learning segment is Transcender, which is a leading online provider of IT certification test preparation products.

Foreign EBITDA from the Company's businesses was not material for the periods presented. Transfers between geographic areas are recorded at agreed upon prices and intercompany revenue and profits are eliminated.

The following tables set forth the information for the Company's reportable segments based on the nature of the products and services offered for the periods indicated:

(IN THOUSANDS)	THREE MONTHS ENDED MARCH 31, 2002			
	IP	SEGMENT STI	ITL	IP
	---	---	---	---
Revenues from external customers	\$ 18,919	\$ 11,056	\$ 3,313	\$ 8,
EBITDA	6,766	2,564	879	2,
Operating income	4,153	1,074	51	
Segment assets excluding goodwill	132,019	51,471	13,046	99,
Goodwill, net	55,043	5,857	43,600	26,

A reconciliation of combined EBITDA for the intellectual property, scientific and technology information, and information technology learning segments to consolidated income before income taxes is as follows:

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(IN THOUSANDS)	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Total EBITDA for reportable segments	\$ 10,209	\$ 8,789
Corporate expenses	(1,012)	(708)
Interest income, net	126	1,506
Depreciation and amortization (1)	(4,936)	(4,485)
Income before income taxes	\$ 4,387	\$ 5,102

(1) Depreciation and amortization includes \$797,000 and \$634,000 of amortization of pre-publication costs, classified as Cost of sales for each of the three month periods ended March 31, 2002 and 2001, respectively.

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INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

H. COMPREHENSIVE INCOME

The following table is a reconciliation of the Company's net income to comprehensive income:

(IN THOUSANDS)	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Net income	\$ 2,814	\$ 3,004
Other comprehensive loss net of taxes of \$5 and \$0, respectively:		
Foreign currency translation adjustment	(7)	-
Comprehensive income	\$ 2,807	\$ 3,004

I. SUBSEQUENT EVENTS

On April 29, 2002, the stockholders of the Company approved a 500,000 share increase in the number of shares reserved for issuance under the Company's 1998 Stock Option Plan to a total of 2,466,886 shares reserved for issuance.

On May 9, 2002, the Company acquired essentially all of the assets of Aurigin Systems, Inc. (Aurigin) for cash consideration of approximately \$12.4 million and the assumption of certain liabilities. Aurigin provides intellectual property management systems, used primarily by corporations to search, analyze, annotate and group patent information as well as proprietary corporate data.

INFORMATION HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS  
OF OPERATIONS

THE FOLLOWING DISCUSSION AND ANALYSIS PRESENTS A REVIEW OF THE COMPANY FOR THE THREE MONTHS ENDED MARCH 31, 2002 AND 2001. THIS REVIEW SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND NOTES PRESENTED HEREIN AS WELL AS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINED IN THE COMPANY'S 2001 ANNUAL REPORT ON FORM 10-K.

OVERVIEW

Impact of Acquisitions and Outlook

A key component of the Company's growth strategy is to pursue acquisitions in attractive niche markets where opportunities exist to internally grow the acquired companies' revenues and increase profitability through operating efficiencies. Since beginning operations in January 1997, the Company has completed thirteen strategic acquisitions, including seven in the intellectual property area, five in scientific and technology information and one in the information technology learning market, as well as some minor acquisitions. The Company continues to actively seek acquisitions that will further the Company's growth and operating strategies (See Note I - SUBSEQUENT EVENTS). As the Company acquires additional companies, its sales mix, market focus, cost structure and operating leverage may change significantly. Consequently, the Company's historical and future results of operations reflect and will reflect the impact of acquisitions from the date of acquisition, and period-to-period comparisons may not be meaningful in some respects. Historical information for companies subsequent to their acquisition may include integration and other costs that are not expected to continue in the future.

Consolidated Results of Operations

The Company reported net income of \$2.8 million, or \$0.13 per diluted common share for the first quarter of 2002 compared with \$3.0 million, or \$0.14 per diluted common share in the first quarter of 2001. Results for the first quarter of 2001 also include amortization of goodwill and certain other acquired intangible assets of approximately \$0.7 million, net of tax. Upon adoption of Statement of Financial Accounting Standard (SFAS) No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS, the Company ceased amortizing goodwill as well as certain other acquired intangible assets. Excluding amortization of these items net income for the three months ended March 31, 2001 would have been \$3.7 million, or \$0.17 per diluted common share compared with \$2.8 million, or \$0.13 per diluted common share for the first quarter of 2002.

The overall decrease in first quarter 2002 earnings over the prior year was primarily due to a decrease in gross profit, the result of lower profit contribution by the IT learning segment, which has higher gross margins than the Company's other segments and decreased interest income, offset by strong contributions from businesses acquired in 2001 and earnings growth in core IP and STI businesses.

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Net interest income (expense) decreased to \$0.1 million from \$1.5 million due primarily to the use of cash from the secondary public stock offering to acquire businesses during fiscal 2001 (See Note E - ACQUISITIONS). Additionally, the average interest rate decreased from 5.6% in the first three months of 2001 to 2.0% in the comparable period in fiscal 2002.

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### INFORMATION HOLDINGS INC.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The provision for income taxes as a percentage of pre-tax income for the three months ended March 31, 2002 is 35.9%, as compared to 41.1% for the first quarter of 2001, due primarily to the adoption of SFAS No. 142, which eliminates goodwill amortization, the majority of which was not tax-deductible. Additionally, the Company was also subject to foreign taxes during the first quarter of 2002, which were immaterial in the period.

#### SEGMENT REVIEW

**INTELLECTUAL PROPERTY (IP)** IP revenue for the first three months of 2002 increased 133.4%, or \$10.8 million, to \$18.9 million compared to \$8.1 million in the comparable period in 2001. Operating income increased 395% to \$4.2 million for 2002, compared to \$0.8 million of operating income in the prior year quarter. Liquent and IDRAC contributed operating income of \$1.8 million in the first quarter of 2002. The increase in revenues includes \$1.0 million from continued strong internal growth in existing IP information and IP management businesses and \$9.8 million in revenue as a result of the acquisitions of IDRAC and Liquent in fiscal 2001. IP cost of sales, expressed as a percentage of revenues, remained constant in the periods. Selling, general and administrative (S,G & A) expenses, excluding the results of the acquisitions of IDRAC and Liquent decreased \$0.7 million, or 21.8%, as a result of a reduction in development spending in the LPS group from prior year levels. IP depreciation and amortization increased \$0.9 million, or 51%, primarily as a result of the amortization of intangible assets and depreciation of purchased equipment related to the above acquisitions, as well as depreciation related to capital expenditures in fiscal 2001 in the core businesses. The impact of the accounting change pursuant to SFAS No. 142 on this segment in the first three months of 2002 was a reduction in amortization expense of \$0.7 million.

**SCIENTIFIC AND TECHNOLOGY INFORMATION (STI)** STI revenue for the first three months of 2002 increased 22.7%, or \$2.0 million, to \$11.0 million from \$9.0 million in the comparable period in 2001. Operating income decreased 5.8%, or \$0.1 million, to \$1.0 million for 2002, compared to \$1.1 million in the prior year quarter. STI operating results for 2002 include the acquisition of Parthenon in May of 2001, which has lower gross margins than the existing core STI business. Total expenses, excluding the acquisition of Parthenon, increased \$0.4 million, or 5.9% over the prior year quarter, primarily due to increased costs in book publishing operations and an overall increase in employee benefit costs. The increase in costs also includes the amortization of capital expenditures in fiscal 2001 for capitalized software and purchased equipment. The impact of the accounting change pursuant to SFAS No. 142 on this segment in the first three months of 2002 was a reduction in amortization expense of \$0.1 million.

**INFORMATION TECHNOLOGY LEARNING (ITL)** ITL revenue for the first three months of 2002 decreased 53.5%, or \$3.8 million, to \$3.3 million compared to \$7.1 million in the comparable period in 2001. Operating income was slightly

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better than breakeven for 2002, a decrease of 97.8% compared to the prior year operating income of \$2.3 million. The revenue fluctuation is a result of very strong first quarter 2001 sales of Transcender's Windows 2000 certification products, a significant decline in the overall IT market since the first quarter of 2001 and a lack of significant new certifications by major software companies in recent months. Revenues in future quarters are expected to improve with the anticipated release of new products. Cost of sales, expressed as a percentage of revenues, remained constant in the periods, while S,G & A expenses decreased by \$0.5 million, or 18.1%, as a result of cost reduction initiatives. The impact of the accounting change pursuant to SFAS No. 142 on this segment in the first three months of 2002 was a reduction in amortization expense of \$0.8 million.

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### INFORMATION HOLDINGS INC.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

##### LIQUIDITY AND CAPITAL RESOURCES

In the first quarter of 2000, the Company sold 4,500,000 shares of its common stock in a public offering and received approximately \$155 million of net proceeds. As of March 31, 2002, proceeds of approximately \$133 million have been used from this offering to fund acquisitions in the Company's information and publishing businesses. No acquisitions were made in the first quarter of 2002. (See Note E - ACQUISITIONS for details on fiscal 2001 acquisitions). The remaining net proceeds will be used to finance future acquisitions and for general corporate purposes (See Note I - SUBSEQUENT EVENTS). Except as noted above, the Company currently does not have any other agreements, arrangements or understandings with respect to any prospective material acquisitions. Pending such uses, the proceeds will be invested in short-term, investment grade securities.

On September 24, 1999, the Company entered into a seven-year revolving credit facility in an amount not to exceed \$50,000,000 initially, including a \$10,000,000 sub-limit for the issuance of standby letters of credit (the Credit Facility). Total commitments under the Credit Facility shall be permanently reduced to \$45,000,000 at the end of the third year, \$37,500,000 at the end of the fourth year, \$25,000,000 at the end of the fifth year and \$12,500,000 at the end of the sixth year. The proceeds from the Credit Facility are to be used to fund acquisitions, to meet short-term working capital needs and for general corporate purposes.

Borrowings under the Credit Facility bear interest at either the higher of the bank's prime rate and one-half of 1% in excess of the overnight federal funds rate plus a margin of 0.50% to 1.25% or the Eurodollar Rate plus a margin of 1.5% to 2.25%, depending on the Company's ratio of indebtedness to earnings before interest, taxes, depreciation and amortization. The Company also pays a commitment fee of 0.375% on the unused portion of the Credit Facility. As of and for the quarter ended March 31, 2002, the Company had no outstanding borrowings under the Credit Facility.

Under the terms of the Credit Facility, the Company is required to maintain certain financial ratios related to fixed charge coverage, leverage and interest coverage, in addition to certain other covenants. As of March 31, 2002, the Company was in compliance with all covenants. The Credit Facility is secured by a first priority perfected pledge of all notes and capital stock owned by the Company's subsidiaries and a first priority perfected security interest in all other assets of the Company and its subsidiaries, subject to certain exceptions.

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Obligations under the Credit Facility will be guaranteed by the Company and its subsidiaries. The Credit Facility also prohibits the Company from incurring certain additional indebtedness, limits certain investments, mergers or consolidations and restricts substantial asset sales, and dividends.

Cash and equivalents, including short-term investments, totaled \$58.8 million at March 31, 2002, compared to \$56.4 million at December 31, 2001. Excluding cash, cash equivalents and short-term investments, the Company had a working capital deficit of \$(4.0) million at March 31, 2002 compared to working capital deficit of \$(6.6) million at December 31, 2001. Since the Company receives patent annuity payments and subscription payments in advance, the Company's existing operations are expected to maintain very low or negative working capital balances, excluding cash. Included in current liabilities at March 31, 2002 are obligations related to patent annuity payments and deferred revenue of approximately \$41.7 million.

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### INFORMATION HOLDINGS INC.

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Cash generated from operating activities was \$4.1 million for the three months ended March 31, 2002, derived from net income of \$2.8 million plus non-cash charges of \$4.6 million less a decrease in operating assets and liabilities of \$3.3 million. The overall decrease in operating assets and liabilities is primarily the result of an increase in customer receivables and deferred revenue at Liquent, a business acquired in December 2001 that had strong first quarter 2002 results, and an increase in income tax liabilities offset primarily by a decrease in accrued expenses related to acquisition deal costs for Liquent.

Cash generated from investing activities was \$1.6 million for the quarter ended March 31, 2002, as a result of the Company liquidating \$3.4 million in short-term investments in commercial paper upon their maturity in the first quarter of 2002 in anticipation of an acquisition in the second quarter (See Note I -SUBSEQUENT EVENTS). Spending related to capital expenditures, including pre-publication costs and internally developed software, was \$1.8 million in the quarter. Excluding acquisitions of businesses, the Company's existing operations are not capital intensive. Capital expenditures for fiscal 2002 include approximately \$0.5 million of purchases of new computer equipment necessary to facilitate the Company's increased Internet capacity.

Cash generated from financing activities was \$0.2 million for the three months ended March 31, 2002, primarily due to net cash proceeds received from the issuance of common stock from stock option exercises. The Company has no outstanding debt obligations as of March 31, 2002 related to the Credit Facility.

The Company believes that funds generated from operations, together with cash on hand and borrowings available under its Credit Facility will be sufficient to fund the cash requirements of its existing operations for the foreseeable future. The Company currently has no commitments for material capital expenditures. The Company may choose to obtain additional capital or financing to consummate future acquisitions. Future operating requirements and capital needs may be subject to economic conditions and other factors, many of which are beyond the Company's control.

#### SEASONALITY



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The Company's business is somewhat seasonal, with revenues typically reaching slightly higher levels during the third and fourth quarters of each calendar year, based on publication schedules and other factors. In 2001, 28% of the Company's revenues were generated during the fourth quarter with the first, second and third quarters accounting for 23%, 24% and 25% of revenues, respectively. In addition, the Company may experience fluctuations in revenues from period to period based on the timing of acquisitions and new product launches.

### EFFECTS OF INFLATION

The Company believes that inflation has not had a material impact on the results of operations presented herein.

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## INFORMATION HOLDINGS INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

#### CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are disclosed in the Company's 2001 Annual Report on Form 10-K. There have been no material changes to these policies during the first three months of fiscal 2002.

#### FORWARD-LOOKING STATEMENTS

The information above contains forward-looking statements, including, without limitation, statements relating to the Company's plans, strategies, objectives, expectations, and intentions that are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that forward-looking statements contained in this Form 10-Q should be read in conjunction with the Company's disclosures under the heading IMPORTANT FACTORS RELATING TO FORWARD-LOOKING STATEMENTS contained in the Company's 2001 Annual Report on Form 10-K.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

**INTEREST RATE RISK** - The Company may be subject to market risks arising from changes in interest rates. Interest rate exposure results from changes in the Eurodollar or the prime rate, which are used to determine the interest rate applicable to borrowings under the Credit Facility. As of March 31, 2002, the Company had no outstanding borrowings under the Credit Facility.

**FOREIGN CURRENCY EXCHANGE RATE RISK** - The financial statements of the Company's foreign subsidiaries are translated from the local currency into U.S. dollars. Assets and liabilities are translated using current exchange rates, except certain accounts of subsidiaries whose functional currency is the U.S. dollar, and translation adjustments are accumulated in a separate component of stockholders' equity. Revenue and expenses are translated at average monthly exchange rates, and translation adjustments are charged and credited to income. As such, the Company's operating results are affected by fluctuations in the value of the U.S. dollar compared to the British pound and the Euro. Foreign exchange translation gains or losses were not material in any of the periods presented.

A subsidiary of the Company routinely enters into forward contracts to acquire various international currencies in an effort to hedge foreign currency transaction exposures of its operations. Such forward contracts have been

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designated as hedges for future annual patent payments to related international regulatory agencies. At March 31, 2002, the subsidiary of the Company had entered into forward contracts to acquire various international currencies, all having maturities of less than five months, aggregating approximately \$16,488,000. Realized gains and losses relating to the forward contracts were immaterial for the quarter ended March 31, 2002.

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes.

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### PART II. OTHER INFORMATION

#### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

The following report relates to the Company's secondary public stock offering:

Commission file number of registration statement:	333-30202
Effective Date:	March 14, 2000

Expenses incurred through March 31, 2002:	
Underwriting discounts	\$ 8,595,000
Other expenses	\$ 522,000
Total expenses	\$ 9,117,000

Application of proceeds through March 31, 2002:	
Acquisitions of businesses, titles and equity interests	\$ 133,421,000
Temporary investments (Commercial paper and money market funds)	\$ 21,579,000

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

##### (b) Reports on Form 8-K:

On January 10, 2002, the Company filed a Current Report on Form 8-K (the Form 8-K) reporting the Agreement and Plan of Merger between the Company, Fluid Acquisition Corp., a wholly owned subsidiary of the Company, and Liquent. On March 12, 2002, the Company filed an amendment to the Form 8-K containing the required financial statements of Liquent and pro forma condensed consolidated financial statements of the Company.

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#### SIGNATURE

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

INFORMATION HOLDINGS INC.

Date: May 15, 2002  
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By: /s/ Vincent A. Chippari  
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Vincent A. Chippari  
Executive Vice President and Chief

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Financial Officer

Signing on behalf of the registrant and  
as principal financial and accounting officer

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