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INFORMATION HOLDINGS INC

Form 10-Q

August 14, 2002

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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: June 30, 2002

Commission File Number: 1-14371

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

DELAWARE 06-1518007
(State of incorporation) (IRS Employer Identification Number)

2777 SUMMER STREET, SUITE 209
STAMFORD, CONNECTICUT 06905
(Address of principal executive offices) (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 June 30, 2002, there were 21,813,386 shares of the Company's common stock, par value \$0.01 per share outstanding.

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INFORMATION HOLDINGS INC.

INDEX

PAGE NUMBER

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:

Consolidated Balance Sheets
As of June 30, 2002 (Unaudited) and December 31, 2001

1

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	Consolidated Statements of Operations (Unaudited) for the Three Months Ended June 30, 2002 and 2001 and Six Months Ended June 30, 2002 and 2001	2
	Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2002 and 2001	3
	Notes to Consolidated Financial Statements (Unaudited)	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	18
PART II.	OTHER INFORMATION	
Item 2.	Changes in Securities and Use of Proceeds	19
Item 4.	Submission of Matters to a Vote of Security Holders	19
Item 6.	Exhibits and Reports on Form 8-K	20
	Signature	21

INFORMATION HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA)

	JUNE 30, 2002 (Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and equivalents	\$ 37,797
Short-term investments	14,555
Accounts receivable (NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS AND SALES RETURNS OF \$3,935 AND \$3,273, RESPECTIVELY)	37,931
Inventories	7,420
Prepaid expenses and other current assets	5,364
Deferred income taxes	3,423
Total current assets	106,490
Property and equipment, net	9,374
Pre-publication costs (NET OF ACCUMULATED AMORTIZATION OF \$7,349 AND \$5,758, RESPECTIVELY)	4,826
Identified intangible assets, net	105,114
Goodwill (NET OF ACCUMULATED AMORTIZATION OF \$7,075 AND \$6,624, RESPECTIVELY)	118,947
Other assets	9,150
TOTAL	\$ 353,901

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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Current portion of capitalized lease obligations	\$	520	
Accounts payable		25,570	
Accrued expenses		12,817	
Royalties payable		2,022	
Deferred revenue		21,031	

Total current liabilities		61,960	
Capital leases		1,689	
Deferred income taxes		15,485	
Other long-term liabilities		987	

Total liabilities		80,121	-----

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 21,813,386 shares at June 30, 2002 and 21,758,052 shares at December 31, 2001		218	
Additional paid-in capital		246,990	
Retained earnings		26,703	
Accumulated other comprehensive loss		(131)	

Total stockholders' equity		273,780	-----
TOTAL	\$	353,901	=====

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

-1-

INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED JUNE 30,		
	2002	2001	
Revenues	\$ 35,645	\$ 25,314	\$
Cost of sales	10,609	5,968	
	-----	-----	-----
Gross profit	25,036	19,346	
	-----	-----	-----
Operating expenses:			

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Selling, general and administrative	15,943	12,336	
Depreciation and amortization	4,412	4,747	
Total operating expenses	20,355	17,083	
Income from operations	4,681	2,263	
Other income (expense):			
Interest income	269	1,060	
Interest expense	(135)	(136)	
Other expense	(3)	-	
Income before income taxes	4,812	3,187	
Provision for income taxes	1,744	1,283	
Net income	\$ 3,068	\$ 1,904	\$
Basic and diluted earnings per common share amounts:			
Net income	\$ 0.14	\$ 0.09	\$

SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.

-2-

INFORMATION HOLDINGS INC.

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

	SIX MO J
	2002
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	\$ 5,882
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	2,913
Amortization of goodwill	-
Amortization of other intangible assets	5,638
Amortization of pre-publication costs	1,637
Change in non-current deferred income tax liabilities	(826)
Other	87
Changes in operating assets and liabilities, net of effect of acquisitions:	
Increase in accounts receivable, net	(2,085)
Increase in inventories	(97)

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Decrease (increase) in prepaid and other current assets	1,707
Decrease in accounts payable and accrued expenses	(5,399)
Income tax benefit from stock options exercised	321
Net change in income taxes (receivable) payable	3,556
Increase (decrease) in deferred revenue	1,083
Net change in other assets and liabilities	(769)

Net Cash Provided by Operating Activities	13,648

CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisitions of businesses and equity interests	(14,043)
Purchases of property and equipment	(1,678)
Investment in pre-publication costs	(1,713)
Sales (purchases) of short-term investments	3,207
Capitalized internal-use software	(434)
Capitalized software development costs	(353)
Proceeds from disposal of property and equipment	33

Net Cash Used in Investing Activities	(14,981)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Common stock issued from stock options exercised	758
Principal payments on capital leases	(240)

Net Cash Provided by Financing Activities	518

NET DECREASE IN CASH AND EQUIVALENTS	(815)
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD	38,612

CASH AND EQUIVALENTS AT END OF PERIOD	\$ 37,797
	=====
SEE NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS.	

-3-

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

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position of IHI as of June 30, 2002, and the consolidated results of operations and cash flows for the periods presented herein. Results for the three and six months ended June 30, 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 June 30, 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 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.

-4-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

C. EARNINGS PER SHARE DATA

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

	THREE MONTHS ENDED JUNE 30,		SI
(IN THOUSANDS, EXCEPT PER SHARE DATA)	2002	2001	2
Basic:			
Net income	\$ 3,068	\$ 1,904	\$ 5,
Average common shares outstanding	21,807	21,633	21,
	-----	-----	-----
Basic EPS	\$ 0.14	\$ 0.09	\$ 0
	=====	=====	=====
Diluted:			
Net income	\$ 3,068	\$ 1,904	\$ 5,
	=====	=====	=====
Average common shares outstanding	21,807	21,633	21,
Net effect of dilutive stock options - based on the treasury stock method	197	163	-----
	-----	-----	-----
Total	22,004	21,796	21,
	=====	=====	=====
Diluted EPS	\$ 0.14	\$ 0.09	\$ 0
	=====	=====	=====

During the first half of 2002, employees exercised stock options to acquire

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55,334 shares at an exercise price of between \$12.00 and \$21.09 per share. For the three and six months ended June 30, 2002, 372,248 and 462,773 stock options, respectively, were excluded from the computation of diluted earnings per common share due to their antidilutive effect. For the three and six months ended June 30, 2001, 324,248 stock options in each of the periods, respectively, were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

D. ACQUISITIONS

On May 9, 2002, the Company acquired substantially all of the assets of Aurigin Systems, Inc. (Aurigin) for cash consideration of approximately \$14,043,000 including 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. The purchase price was preliminarily allocated to net tangible liabilities of \$1,592,000, identified intangible assets of \$1,600,000 and goodwill of \$14,035,000. The Company has obtained a preliminary independent appraisal of the fair value of the identified intangible assets and their remaining useful lives. The result of operations of the assets and liabilities acquired is not material to the current period or the comparable periods presented herein.

-5-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

D. ACQUISITIONS (CONTINUED)

On December 20, 2001, the Company completed a tender offer and acquired all of the outstanding common shares of Lipient, Inc. (Lipient) for cash consideration equal to \$2.27 per share, or approximately \$41,100,000. Lipient 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 \$6,026,000, identified intangible assets of \$6,790,000 and non-deductible goodwill of \$25,875,000. 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 Lipient'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.

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

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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 includes Liquent and Aurigin.

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 JUNE 30, ----- 2001	-----
(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Revenues	\$ 29,856	\$
	=====	==
Net loss	\$ (535)	\$
	=====	==
Basic loss per common share	\$ (0.02)	\$
	=====	==
Diluted loss per common share	\$ (0.02)	\$
	=====	==

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.

-6-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

E. GOODWILL AND IDENTIFIED INTANGIBLE ASSETS

Effective as of January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, GOODWILL AND OTHER INTANGIBLE ASSETS. Under SFAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually, or more frequently if impairment indicators arise.

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.

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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 JUNE 30,
(IN THOUSANDS, EXCEPT PER SHARE DATA)	2001
Reported net income	\$ 1,904
Adjustment for goodwill amortization, net of tax	965
Adjustment for trademark and tradename amortization, net of tax	78
Pro forma net income	\$ 2,947
Basic and diluted earning per common share:	
As reported	\$ 0.09
Pro forma	\$ 0.14

-7-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

E GOODWILL AND IDENTIFIED INTANGIBLE ASSETS (CONTINUED)

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

	JUNE 30, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Trademarks and tradenames	\$ 11,469	\$ 2,167	\$ 9,302
Publishing rights	23,571	5,290	18,281
Customer lists and relationships	46,548	8,976	37,572
Databases and content	27,400	5,986	21,414
Other identified intangibles	11,714	1,976	9,738
	<u>\$ 120,702</u>	<u>\$ 24,395</u>	<u>\$ 96,307</u>

DECEMBER 31, 2001		
Gross		
Carrying	Accumulated	Net

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	Amount	Amortization	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

Total amortization expense of goodwill and identified intangible assets amounted to \$5,638,000 and \$15,252,000 for the six months ended June 30, 2002 and the year ended December 31, 2001, respectively.

During the first half of 2002, the Company removed from its Balance Sheet fully amortized other identified intangibles with a cost of approximately \$7,300,000.

-8-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

E. GOODWILL AND IDENTIFIED INTANGIBLE ASSETS (CONTINUED)

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

	JUNE 30, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Trademarks and tradenames	\$ 10,000	\$ 1,193	\$ 8,807
Goodwill	126,022	7,075	118,947
	\$ 136,022	\$ 8,268	\$ 127,754
	=====	=====	=====
	DECEMBER 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Balance
Goodwill	\$ 26,923	\$ -	\$ 26,923
	=====	=====	=====

Annual pretax amortization for identified intangible assets over the

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next five years is estimated to be as follows (in thousands):

Year ending December 31,

2003	\$	11,411
2004	\$	11,154
2005	\$	10,756
2006	\$	9,774
2007	\$	8,902

The following table summarizes the change in the carrying amount of goodwill for the periods indicated (in thousands):

	SIX MONTHS ENDED JUNE 30,

(IN THOUSANDS, EXCEPT PER SHARE DATA)	2002
Beginning balance	\$ 102,666
Net change from acquisitions	14,487
Amortization expense	-
Reclassification of assembled workforce, net	1,834
Other	(40)

Total	\$ 118,947
	=====

-9-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

F. 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.

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

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segments based on the nature of the products and services offered for the periods indicated:

	THREE MONTHS ENDED JUNE 30, 2002			TH
	SEGMENT			
	IP	STI	ITL	IP
(IN THOUSANDS)				
Revenues from external customers	\$ 19,455	\$ 12,864	\$ 3,326	\$ 10,569
EBITDA	6,204	3,509	1,187	4,128
Operating income	3,435	1,860	361	1,627
Segment assets excluding goodwill	136,068	53,393	12,157	105,322
Goodwill, net	69,479	5,868	43,600	31,902

	SIX MONTHS ENDED JUNE 30, 2002			S
	SEGMENT			
	IP	STI	ITL	IP
(IN THOUSANDS)				
Revenues from external customers	\$ 38,374	\$ 23,920	\$ 6,639	\$ 18,674
EBITDA	12,970	6,073	2,066	6,695
Operating income	7,588	2,934	412	2,466
Segment assets excluding goodwill	136,068	53,393	12,157	105,322
Goodwill, net	69,479	5,868	43,600	31,902

-10-

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

F. SEGMENT INFORMATION (CONTINUED)

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:

	THREE MONTHS ENDED JUNE 30,		SI
	2002	2001	
(IN THOUSANDS)			
Total EBITDA for reportable segments	\$ 10,900	\$ 8,610	\$ 21
Corporate expenses	(970)	(930)	(1
Interest income, net	134	924	
Depreciation and amortization (1) (2)	(5,252)	(5,417)	(10

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Income before income taxes	\$	4,812	\$	3,187	\$	9
		=====		=====		=====

(1) Depreciation and amortization includes \$840,000 and \$670,000 of amortization of pre-publication costs, included in operations in cost of sales for each of the three month periods ended June 30, 2002 and 2001, respectively.

(2) Depreciation and amortization includes \$1,637,000 and \$1,304,000 of amortization of pre-publication costs, included in operations in cost of sales for each of the six month periods ended June 30, 2002 and 2001, respectively.

G. COMPREHENSIVE INCOME

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

	THREE MONTHS ENDED JUNE 30,		
(IN THOUSANDS)	2002	2001	
Net income	\$ 3,068	\$ 1,904	\$ 5
Other comprehensive loss, net of tax:			
Foreign currency translation adjustment	(74)	(70)	
Comprehensive income	\$ 2,994	\$ 1,834	\$ 5

-11-

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 AND SIX MONTHS ENDED JUNE 30, 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

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completed fourteen strategic acquisitions, including eight 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. 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

THREE MONTHS ENDED JUNE 30, 2002 COMPARED TO THREE MONTHS ENDED JUNE 30, 2001

The Company reported net income of \$3.1 million, or \$0.14 per diluted common share, for the second quarter of 2002 compared with \$1.9 million, or \$0.09 per diluted common share, in the second quarter of 2001. Results for the second quarter of 2001 include amortization of goodwill and certain other acquired intangible assets of approximately \$1.0 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 June 30, 2001 would have been \$2.9 million, or \$0.14 per diluted common share, compared with \$3.1 million, or \$0.14 per diluted common share, for the second quarter of 2002.

The overall increase in second quarter 2002 earnings over the prior year was due primarily to increased gross profits in the Company's IP and STI segments, including both a positive impact from businesses acquired in 2001 and growth in core businesses, the impact of the accounting change pursuant to SFAS No. 142, as well as a decrease in the Company's effective income tax rate. The positive factors were partially offset by decreased earnings in the Company's ITL segment, increased depreciation related to capital expenditures, increased amortization of acquired intangible assets and lower interest income.

-12-

INFORMATION HOLDINGS INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net interest income (expense) decreased to \$0.1 million from \$0.9 million due primarily to the use of cash from the secondary public stock offering to acquire businesses during 2001 and 2002 (See Note D - ACQUISITIONS). Additionally, the average interest rate decreased to 1.9% in the second quarter of 2002 from 4.5% in the comparable prior year period.

The provision for income taxes as a percentage of pre-tax income for the three months ended June 30, 2002 was 36.2%, compared to 40.3% for the second quarter of 2001, due primarily to the adoption of SFAS No. 142, which eliminates goodwill amortization, a significant amount of which was not tax-deductible. Additionally, the Company was also subject to foreign taxes during the second quarter of 2002 and 2001, which were immaterial in the periods.

SEGMENT REVIEW

INTELLECTUAL PROPERTY (IP)

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IP revenue for the second quarter of 2002 increased 84.1%, or \$8.9 million, to \$19.5 million compared to \$10.6 million in the comparable period in 2001. The increase in revenues includes \$0.8 million from continued strong internal growth in existing IP information and IP management businesses, \$0.9 million of revenues from Aurigin products acquired in 2002 and an increase of \$7.2 million in revenue at Lipient-IDRAC, primarily as a result of the acquisition of Lipient in fiscal 2001. Operating income increased 111.1%, or \$1.8 million, to \$3.4 million for 2002, compared to \$1.6 million of operating income in the prior year quarter. The increase in operating income includes an increase of \$1.0 million at Lipient-IDRAC and an increase of \$0.8 million in core IP information and IP management businesses. IP cost of sales, expressed as a percentage of revenues, increased from 27.5% to 30.2%, due primarily to the inclusion of Lipient in fiscal 2002 results. Selling, general and administrative (S,G&A) expenses, increased \$3.8 million or 108.4%, due primarily to the expenses of Lipient and Aurigin, businesses acquired in December 2001 and in May 2002, respectively. Included in S,G&A expenses for the quarter ended June 30, 2002 is an unrealized foreign exchange loss of \$0.3 million, due primarily to the revaluation of U.S. dollar denominated cash held by the Company's French subsidiary. IP depreciation and amortization increased \$0.3 million, or 10.8%, primarily as a result of the amortization of intangible assets and depreciation of purchased equipment related to the above acquisitions, partially offset by the impact of the accounting change pursuant to SFAS No. 142.

SCIENTIFIC AND TECHNOLOGY INFORMATION (STI)

STI revenue for the second quarter of 2002 increased 34.3%, or \$3.3 million, to \$12.9 million from \$9.6 million in the comparable period in 2001. The revenue increase includes an increase of \$0.8 million in international reference product sales at CRC Press and an increase of \$2.0 million at Parthenon Press (acquired in May 2001), including an increase of approximately \$0.8 million in its medical communication division. Operating income increased 176.1%, or \$1.2 million, to \$1.9 million for 2002, compared to \$0.7 million in the prior year quarter, due primarily to contributions from increased revenues. STI cost of sales, expressed as a percentage of revenues, increased from 28.9% to 35.0%, due primarily to increased contributions from Parthenon Press, which has lower gross margins than CRC Press. S,G&A expenses were relatively constant in the periods. STI depreciation and amortization increased \$0.2 million, or 35.1%, primarily as result of depreciation on new software systems.

-13-

INFORMATION HOLDINGS INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

INFORMATION TECHNOLOGY LEARNING (ITL)

ITL revenue for the second quarter of 2002 decreased 35.7%, or \$1.8 million, to \$3.3 million compared to \$5.1 million in the comparable period in 2001. The revenue decline is a result of continued difficult overall market conditions in information technology and a lack of significant new certifications by major software companies in recent months. Operating income in the second quarter of 2002 decreased 59.8%, or \$0.5 million, to \$0.4 million, compared to prior year operating income of \$0.9 million, as a result of the revenue decline. Cost of sales, expressed as a percentage of revenues, was relatively constant in the periods, while S,G&A expenses decreased by \$0.4 million, or 18.5%, as a result of cost reduction initiatives. ITL depreciation and amortization decreased by 50%, or \$0.8 million, based on the impact of the accounting change pursuant to SFAS No. 142.

SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO SIX MONTHS ENDED JUNE 30, 2001

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The Company reported net income of \$5.9 million, or \$0.27 per diluted common share, for the first six months of 2002 compared with \$4.9 million, or \$0.23 per diluted common share, in the first six months of 2001. Results for the first half of 2001 include amortization of goodwill and certain other acquired intangible assets of approximately \$1.8 million, net of tax. Upon adoption of SFAS No. 142, the Company ceased amortizing goodwill as well as certain other acquired intangible assets. Excluding amortization of these items net income for the six months ended June 30, 2001 would have been \$6.7 million, or \$0.31 per diluted common share, compared with \$5.9 million, or \$0.27 per diluted common share, for the first half of 2002.

The overall increase in earnings in the first six months of 2002 over the prior year period was due primarily to increased gross profits in the Company's IP and STI segments, including both a positive impact from businesses acquired in 2001 and growth in core businesses, and a decrease in the Company's effective income tax rate. The positive factors were partially offset by decreased earnings in the Company's ITL segment and lower interest income. Depreciation and amortization was relatively constant in the periods with increases in depreciation related to capital expenditures and amortization of acquired intangible assets, offset by the effect of the adoption of SFAS No. 142.

Net interest income (expense) decreased to \$0.3 million from \$2.4 million due primarily to the use of cash from the secondary public stock offering to acquire businesses during 2001 and 2002 (See Note D - ACQUISITIONS). Additionally, the average interest rate decreased to 1.9% in the first six months of 2002 from 5.0% in the comparable prior year period.

The provision for income taxes as a percentage of pre-tax income for the six months ended June 30, 2002 was 36.1%, compared to 40.8% for the first six months of 2001, due primarily to the adoption of SFAS No. 142, which eliminates goodwill amortization, a significant amount of which was not tax-deductible. Additionally, the Company was also subject to foreign taxes during the first half of 2002 and 2001, which were immaterial in the period.

-14-

INFORMATION HOLDINGS INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

SEGMENT REVIEW

INTELLECTUAL PROPERTY (IP)

IP revenue for the first six months of 2002 increased 105.5%, or \$19.7 million, to \$38.4 million compared to \$18.7 million in the comparable period in 2001. The increase in revenues includes \$1.8 million from continued strong internal growth in existing IP information and IP management businesses, \$0.9 million of revenues from Aurigin products acquired in 2002 and an increase of \$17.0 million in revenue at Lipient-IDRAC, primarily as a result of the acquisition of Lipient in fiscal 2001. Operating income increased 207.7%, or \$5.1 million, to \$7.6 million for 2002, compared to \$2.5 million of operating income in the prior year period. The increase in operating income includes an increase of \$2.8 million at Lipient-IDRAC, an increase of \$1.6 million in core IP information and IP management businesses, and a decrease of operating expenses of \$0.7 million at LPS. IP cost of sales, expressed as a percentage of revenues, increased from 28.4% to 29.6%, due primarily to the inclusion of Lipient in fiscal 2002 results. SG&A expenses, excluding costs of Lipient, increased \$0.6 million, or 9.2%, primarily as a result of expenses related to Aurigin and increases at IDRAC (acquired in March 2001), partially offset by decreased spending levels in

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the LPS Group. IP depreciation and amortization increased \$1.2 million, or 27.2%, primarily as a result of the amortization of intangible assets and depreciation of purchased equipment related to acquisitions, partially offset by the impact of the accounting change pursuant to SFAS No. 142.

SCIENTIFIC AND TECHNOLOGY INFORMATION (STI)

STI revenue for the first six months of 2002 increased 28.7%, or \$5.3 million, to \$23.9 million from \$18.6 million in the comparable period in 2001. The revenue increase includes an increase of \$1.0 million in reference product sales at CRC Press and an increase of \$4.0 million at Parthenon Press, which was acquired in May 2001. Operating income increased 61.8%, or \$1.1 million, to \$2.9 million for 2002, compared to \$1.8 million in the prior year period, due primarily to contributions from increased revenues. STI cost of sales, expressed as a percentage of revenues, increased from 29.7% to 33.9%, due primarily to increased contributions from Parthenon Press, which has lower gross margins than CRC Press. S,G&A expenses increased \$1.2 million, or 11.9%, due primarily to the acquisition of Parthenon Press. STI depreciation and amortization increased \$0.4 million, or 38.2%, primarily as result of amortization of Parthenon Press intangible assets and depreciation on new software systems.

INFORMATION TECHNOLOGY LEARNING (ITL)

ITL revenue for the first six months of 2002 decreased 46.0%, or \$5.7 million, to \$6.6 million compared to \$12.3 million in the comparable period in 2001. The revenue decline is a result of continued difficult overall market conditions in information technology and a lack of significant new certifications by major software companies in recent months. Operating income in the first half of 2002 decreased 87.2%, or \$2.8 million, to \$0.4 million, compared to prior year operating income of \$3.2 million, as a result of the revenue decline. Cost of sales, expressed as a percentage of revenues, was relatively constant in the periods, while S,G&A expenses decreased by \$0.9 million, or 18.3%, as a result of cost reduction initiatives. ITL depreciation and amortization decreased by 49.4%, or \$1.6 million, based primarily on the impact of the accounting change pursuant to SFAS No. 142.

-15-

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 June 30, 2002, proceeds of approximately \$147 million have been used from this offering to fund acquisitions in the Company's information and publishing businesses. See Note D - ACQUISITIONS for details on fiscal 2002 and 2001 acquisitions. The remaining net proceeds will be used to finance future acquisitions and for general corporate purposes. 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

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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 June 30, 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 June 30, 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. 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 \$52.4 million at June 30, 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 \$(7.8) million at June 30, 2002 compared to a working capital deficit of \$(6.6) million at December 31, 2001. The Company receives patent annuity payments and subscription payments in advance and is, therefore, expected to maintain very low or negative working capital balances, excluding cash. Included in current liabilities at June 30, 2002 are obligations related to patent annuity payments and deferred revenue of approximately \$41.1 million.

-16-

INFORMATION HOLDINGS INC.

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

Cash generated from operating activities was \$13.6 million for the six months ended June 30, 2002, derived from net income of \$5.9 million plus non-cash charges of \$9.4 million less a decrease in operating assets and liabilities of \$1.7 million. The overall decrease in operating assets and liabilities is primarily due to the timing of and the increase in the number of patent annuity payments, and an increase in income tax liabilities offset primarily by a decrease in accrued expenses related to acquisition deal costs for Lipient.

Cash used in investing activities was \$15.0 million for the six months ended June 30, 2002 primarily due to acquisition costs for Aurigin of \$14.0 million (See Note D - ACQUISITIONS). Spending related to capital expenditures, including pre-publication costs and capitalized software, was \$4.2 million in the first half of 2002. Excluding acquisitions of businesses, the Company's existing operations are not capital intensive.

Cash generated from financing activities was \$0.5 million for the six months ended June 30, 2002, primarily due to net cash proceeds received from the issuance of common stock from stock option exercises. The Company has no

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outstanding debt obligations as of June 30, 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 or agreements with respect to any prospective material acquisitions. 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

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.

-17-

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 six months of fiscal 2002.

FORWARD-LOOKING STATEMENTS

Certain statements in this report contain 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 June 30, 2002, the Company had no outstanding borrowings under the Credit Facility.

FOREIGN CURRENCY EXCHANGE RATE RISK - The financial statements of the Company's

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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 losses for the three and six months ended June 30, 2002 were \$299,000 and \$134,000, respectively.

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 designated as hedges for future annual patent payments to related international regulatory agencies. At June 30, 2002, the subsidiary of the Company had entered into forward contracts to acquire various international currencies, all having maturities of less than seven months, aggregating approximately \$15,735,000. Realized gains and losses relating to the forward contracts were immaterial for the quarter ended June 30, 2002.

The Company does not use derivative financial instruments for trading purposes.

-18-

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:
Effective Date:

3
March

Expenses incurred through June 30, 2002:

Underwriting discounts	\$	8
Other expenses	\$	
Total expenses	\$	9

Application of proceeds through June 30, 2002:

Acquisitions of businesses, titles and equity interests	\$	147
Temporary investments	\$	7
(Commercial paper and money market funds)		

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

At the Company's Annual Meeting of Stockholders on April 29, 2002 a total of 18,061,777 shares, or 83% of outstanding shares, were represented and entitled to vote.

(a) The following members were elected to the Board of Directors:

	Total Vote For Each Director -----	Tot Fro ---
--	--	-------------------

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Michael E. Danzinger	17,894,867
David R. Haas	17,895,612
Sidney Lapidus	17,874,228
David E. Libowitz	17,826,099
John R. Purcell	17,895,412
Mason P. Slaine	16,383,241

(b) The following proposal was approved:

The amendment to the 1998 Stock Option Plan.

Affirmative Votes	16,618,405
Negative Votes	1,431,835
Abstain	11,534

(c) The following proposal was approved:

Ratification of Ernst & Young LLP as the independent public accountants for the Company for the 2002 fiscal year.

Affirmative Votes	17,827,391
Negative Votes	233,556
Abstain	830

-19-

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

(b) Reports on Form 8-K:

The Company did not file any reports on Form 8-K during the three months ended June 30, 2002.

(c) Exhibits

10.1 Employment agreement, dated as of April 30, 2002, between
Information Holdings Inc. and Mason Slaine
99.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

-20-

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.

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INFORMATION HOLDINGS INC.

Date: August 14, 2002

By: /s/ Vincent A. Chippari

Vincent A. Chippari
Executive Vice President and Chief Financial
Officer

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

-21-