INFORMATION HOLDINGS INC
Form 10-Q
May 14, 2003

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: March 31, 2003

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. o Yes ý No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). ý Yes o No

As of May 13, 2003, there were 21,466,188 shares of the Company s common stock, par value $0.01 per share outstanding.

INFORMATION HOLDINGS INC.

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INFORMATION HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2003 (Unaudited)	December 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 61,974	$ 53,910
Short-term investments	8,261	13,056
Accounts receivable *(net of allowance for doubtful accounts and sales returns of $609 and $503, respectively)*	31,050	29,375
Prepaid expenses and other current assets	3,228	3,940
Deferred income taxes	4,589	4,589
Total assets of discontinued operations	55,860	59,653
Total current assets	164,962	164,523
Property and equipment, net	5,329	5,837
Identified intangible assets, net	70,310	72,309
Goodwill	83,140	83,099
Deferred income taxes	552	164
Other assets	2,612	3,069
TOTAL	$ 326,905	$ 329,001
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Current portion of capitalized lease obligations	$ 147	$ 145
Accounts payable	28,316	26,224
Accrued expenses	9,662	13,747
Deferred subscription revenue	23,662	21,129
Total liabilities of discontinued operations	14,229	17,891
Total current liabilities	76,016	79,136
Capital leases	26	63
Other long-term liabilities	37	62
Total liabilities	76,079	79,261
STOCKHOLDERS EQUITY:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	$	$
Common stock, $.01 par value; authorized 50,000,000 shares; issued 21,828,803 and 21,815,677 shares, respectively; outstanding 21,446,903 and 21,433,777 shares, respectively	218	218
Additional paid-in capital	247,204	247,026

Retained earnings		8,191		7,097
Treasury stock, at cost, 381,900 shares		(5,227)		(5,227)
Accumulated other comprehensive income		440		626
Total stockholders equity		250,826		249,740
TOTAL	$	326,905	$	329,001

See notes to unaudited consolidated financial statements.

INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31, 2003		Three Months Ended March 31, 2002	
Revenues	$	22,208	$	22,232
Cost of sales		6,561		5,656
Gross profit		15,647		16,576
Operating expenses:				
Selling, general and administrative		10,660		9,943
Depreciation and amortization		3,092		3,445
Total operating expenses		13,752		13,388
Income from operations		1,895		3,188
Other income (expense):				
Interest income		188		255
Interest expense		(56)		(88)
Early termination of credit agreement		(575)		
Income from continuing operations before income taxes		1,452		3,355
Provision for income taxes		462		1,200
Net income from continuing operations		990		2,155
Income from operations of discontinued segment, net of income tax provision of $103 and $373		104		659
Net income	$	1,094	$	2,814
Net income per basic and diluted common share:				
Continuing operations	$	0.05	$	0.10
Discontinued operations		0.00		0.03
Net income	$	0.05	$	0.13

See notes to unaudited consolidated financial statements.

INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,094	$ 2,814
Less: Income from discontinued operations	104	659
Net income from continuing operations	990	2,155
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,092	1,088
Amortization of other intangible assets	2,000	2,357
Change in non-current deferred income tax liabilities	(387)	(422)
Termination of credit facility	494	
Other	92	34
Changes in operating assets and liabilities, net of effect of acquisitions:		
Increase in accounts receivable, net	(1,675)	(1,931)
(Increase) decrease in inventories	(43)	8
Decrease in prepaid and other current assets	132	302
Increase (decrease) in accounts payable and accrued expenses	139	(6,114)
Income tax benefit from stock options exercised	21	152
Net change in income taxes (receivable) payable	(1,556)	1,584
Increase in deferred revenue	2,533	2,463
Net change in other assets and liabilities	(112)	(234)
Net Cash Provided by Continuing Operations	3,720	1,442
Net Cash Provided by Discontinued Operations	1,018	2,652
Net Cash Provided by Operating Activities	4,738	4,094
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(445)	(822)
Sales of short-term investments	4,795	3,410
Capitalized software development cost	(89)	
Capitalized internal-use software	(159)	(69)
Proceeds from disposal of property and equipment		4
Net Cash Provided by Continuing Operations	4,102	2,523
Net Cash Used in Discontinued Operations	(801)	(916)
Net Cash Provided by Investing Activities	3,301	1,607

CASH FLOWS FROM FINANCING ACTIVITIES:				
Common stock issued from stock options exercised		157		288
Principal payments on capital leases		(35)		(32)
Net Cash Provided by Continuing Operations		122		256
Net Cash Used in Discontinued Operations		(97)		(86)
Net Cash Provided by Financing Activities		25		170
NET INCREASE IN CASH AND EQUIVALENTS		8,064		5,871
CASH AND EQUIVALENTS AT BEGINNING OF PERIOD		53,910		38,612
CASH AND EQUIVALENTS AT END OF PERIOD	$	61,974	$	44,483

See notes to unaudited consolidated financial statements.

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, 2002 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, 2002 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 Article 10 of Regulation S-X, and do not include all information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring adjustments, necessary to present fairly the consolidated financial position of IHI as of March 31, 2003, and the consolidated results of operations and cash flows for the periods presented herein. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

On February 27, 2003, the Company entered into a definitive purchase agreement to sell substantially all of the assets and certain liabilities of its wholly owned subsidiary CRC Press (See Note B - Discontinued Operations). Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of this component have been segregated from those of continuing operations and are presented in the Company s financial statements as discontinued operations for all periods presented herein. The transaction was completed on April 8, 2003.

Certain reclassifications have been made to the financial statements of the prior period to conform to the March 31, 2003 presentation.

B. DISCONTINUED OPERATIONS

On February 27, 2003, the Company entered into a definitive purchase agreement (the Purchase Agreement) to sell substantially all of the assets and certain liabilities of its wholly owned subsidiaries CRC Press LLC (CRC Press), CRC Press (U.K.) LLC and Parthenon Publishing Group, Inc. (together, CRC), to CRC Press I LLC and Routledge No. 2 Limited, both wholly owned subsidiaries of Taylor & Francis Group plc (together, the Buyer), for approximately $95 million in cash, subject to a post closing adjustment.

CRC comprised the entirety of the Company s scientific and technology information (STI) segment. Subsequent to the date of sale, the Company will no longer have operations in the STI segment. In accordance with SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), all assets, liabilities, results of operations and cash flows of this

component have been segregated from those of continuing operations and are presented in the Company s March 31, 2003 financial statements as discontinued operations. Additionally, the Company s financial statements have been reclassified to reflect the STI segment as a discontinued operation for all periods presented (See Note F - Segment Information).

The transaction was completed on April 8, 2003. The final sale price is subject to a post-closing adjustment based on the closing date balance sheet of CRC Press. Approximately $3 million of the proceeds are being held in escrow related to representations and warranties contained in the Purchase Agreement. These proceeds will become available to the Company in April 2004 unless the Buyer has valid claims resulting from a breach of the representations and warranties. The Company estimates a gain of $30 to $33 million, net of income taxes associated with the transaction, which will be recorded during the second quarter of 2003.

Summary operating results for the discontinued STI operations follow:

	Three Months Ended March 31, (Unaudited)			
(In thousands)		**2003**		**2002**
Revenues	$	10,805	$	11,056
Pre-tax income from discontinued operations		207		1,032
Provision for income taxes		(103)		(373)
Net income from discontinued operations	$	104	$	659

Summarized unaudited balance sheet information for the discontinued STI operations follow:

(In thousands)		**March 31, 2003**		**December 31, 2002**
Assets:				
Current assets	$	17,891	$	21,348
Property and equipment, net		1,949		2,109
Identified intangible assets, net		27,494		28,130
Goodwill, net		5,868		5,868
Other long-term assets		2,658		2,198
Total assets of discontinued operations	$	55,860	$	59,653
Liabilities:				
Current liabilities	$	11,019	$	14,529
Long-term liabilities		3,210		3,362
Total liabilities of discontinued operations	$	14,229	$	17,891

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C. STOCK-BASED COMPENSATION

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. The Company accounts for its stock option grants under the provisions of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees,* which utilizes the intrinsic value method. Since stock options are granted by the Company with exercise prices equal to the market price of the underlying stock at the date of grant, no compensation expense has been recognized.

Had compensation cost for the Company s stock option plan been determined based on the fair value of the options at the dates of grant consistent with the requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company s net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended March 31,

2003	2002

Net income as reported	**$**	**1,094**	**$**	**2,814**
Deduct: Total stock-based employee expense determined under fair value based method for all awards, net of related tax effects		**955**		**819**
Pro forma	**$**	**139**	**$**	**1,995**
Basic earnings per common share:				
As reported	**$**	**0.05**	**$**	**0.13**
Pro forma	**$**	**0.01**	**$**	**0.09**
Diluted earnings per common share:				
As reported	**$**	**0.05**	**$**	**0.13**
Pro forma	**$**	**0.01**	**$**	**0.09**

The effects on pro forma net income and earnings per share of expensing the estimated fair value of stock options are not necessarily representative of the effects on reported net income for future years due to such factors as the vesting period of the stock options and the potential for issuance of additional stock options in future years.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used:

Three Months Ended

March 31

	2003	2002
Risk free interest rate1	2.95%	4.4%
Expected life of option grants (years)	***5***	***5***
Expected volatility	***65.33%***	***64.92%***
Expected dividend yield	***0***	***0***
Weighted average fair value	$ 9.07	$ 16.09

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, 2003	2002
Net income:		
Continuing operations	$ 990	$ 2,155
Discontinued operations	104	659
Total	$ 1,094	$ 2,814
Weighted average shares outstanding:		
Basic	21,437	21,760
Net effect of dilutive stock options based on the treasury stock method	34	191
Diluted	21,471	21,951
Earnings per share:		
Basic and diluted		
Income from continuing operations	$ 0.05	$ 0.10
Income from discontinued operations	0.00	0.03
Net income	$ 0.05	$ 0.13

During the first quarter of 2003, employees exercised stock options to acquire 13,126 shares at an exercise price of $12.00 per share. For the three months ended March 31, 2003 and 2002, 1,129,225 and 287,823 stock options, respectively, were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

E. 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 allocated to net tangible liabilities of $1,553,000, identified intangible assets of $1,600,000 and tax-deductible goodwill of $13,996,000. The Company has obtained an independent appraisal of the fair value of the identified intangible assets and their remaining useful lives (six years).

The Aurigin acquisition has been accounted for using the purchase method of accounting and, accordingly, the results of its operations have been included in the Company s results of operations from its date of acquisition.

The following unaudited pro forma information presents the results of operations of the Company, as if the 2002 acquisition of Aurigin had taken place as of January 1, 2002:

(In thousands, except per share data)		**Three MonthsEnded March 31, 2002**
Revenues	$	23,758
Net income	$	2,759
Basic earnings per common share	$	0.13
Diluted earnings per common share	$	0.13

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.

F. SEGMENT INFORMATION

As of March 31, 2003, the Company has two reportable segments contributing to its results from continuing operations: intellectual property (IP) and information technology learning (ITL). The intellectual property segment, which includes MicroPatent, Master Data Center and Liquent, provides a broad array of databases, information products and complementary services for intellectual property and regulatory professionals. The information technology learning segment is Transcender, which is a leading online provider of IT certification test preparation products.

As of December 31, 2002, the date of the Company s most recently filed Annual Report on Form 10-K, the Company had included a third segment: scientific and technology information (STI), comprised solely of its wholly owned subsidiary CRC Press and its subsidiaries (together, CRC). In February 2003, the Company determined to permanently exit the STI segment and, on February 27, 2003, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets and certain liabilities of CRC to CRC Press I LLC and Routledge No. 2 Limited, both wholly owned subsidiaries of Taylor & Francis Group plc (See Note B - Discontinued Operations). Based on these events, the Company s financial statements have been reclassified to reflect the STI segment as a discontinued operation for all periods presented. The transaction was completed on April 8, 2003.

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

	Three Months Ended March 31, 2003		Three Months Ended March 31, 2002	
	Segment		Segment	
(In thousands)	**IP**	**ITL**	**IP**	**ITL**
Revenues from external customers	$ 19,657	$ 2,551	$ 18,919	$ 3,313
EBITDA	5,735	588	6,766	879
Operating income	2,996	172	4,154	51
Segment assets excluding goodwill	131,667	4,406	132,019	13,046
Goodwill, net	70,340	12,800	55,043	43,600