

INFORMATION HOLDINGS INC
Form 10-Q
August 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: June 30, 2003

Commission File Number: 1-14371

INFORMATION HOLDINGS INC.

(Exact name of registrant as specified in its charter)

DELAWARE

06-1518007

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(State of incorporation)

(IRS Employer Identification Number)

**2777 Summer Street, Suite 209
Stamford, Connecticut**

06905

(Address of principal executive offices)

(Zip Code)

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(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. Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 14, 2003, there were 20,872,237 shares of the Company's common stock, par value \$0.01 per share outstanding.

INFORMATION HOLDINGS INC.

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Signature

INFORMATION HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

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(In thousands, except share data)

	June 30, 2003 (Unaudited)	December 31, 2002
ASSETS		
<i>CURRENT ASSETS:</i>		
Cash and equivalents	\$ 109,836	\$ 53,910
Short-term investments	36,698	13,056
Restricted cash	3,000	
Accounts receivable (net of allowance for doubtful accounts and sales returns of \$585 and \$503, respectively)	26,024	29,375
Prepaid expenses and other current assets	2,796	3,940
Deferred income taxes	4,067	4,589
Total assets of discontinued operations		59,653
Total current assets	182,421	164,523
Investments	6,742	
Property and equipment, net	4,831	5,837
Identified intangible assets, net	68,311	72,309
Goodwill	83,140	83,099
Other assets	3,254	3,233
TOTAL	\$ 348,699	\$ 329,001
LIABILITIES AND STOCKHOLDERS EQUITY		
<i>CURRENT LIABILITIES:</i>		
Accounts payable	\$ 27,046	\$ 26,224
Accrued expenses	12,444	11,098
Accrued income taxes	16,493	2,794
Deferred subscription revenue	20,262	21,129
Total liabilities of discontinued operations		17,891
Total current liabilities	76,245	79,136
Other long-term liabilities	12	125
Total liabilities	76,257	79,261
<i>STOCKHOLDERS EQUITY:</i>		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	\$	\$
Common stock, \$.01 par value; authorized 50,000,000 shares; issued 21,869,130 and 21,815,677 shares, respectively; outstanding 20,861,930 and 21,433,777 shares, respectively	219	218
Additional paid-in capital	247,766	247,026
Retained earnings	38,963	7,097
Treasury stock, at cost, 1,007,200 and 381,900 shares, respectively	(14,723)	(5,227)
Accumulated other comprehensive income	217	626
Total stockholders equity	272,442	249,740

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TOTAL	\$	348,699	\$	329,001
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See notes to unaudited consolidated financial statements.

INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Revenues	\$ 21,926	\$ 22,781	\$ 44,134	\$ 45,013
Cost of sales	6,562	6,111	13,123	11,767
Gross profit	15,364	16,670	31,011	33,246
Operating expenses:				
Selling, general and administrative	10,945	10,246	21,605	20,189
Depreciation and amortization	3,023	3,603	6,115	7,049
Total operating expenses	13,968	13,849	27,720	27,238
Income from operations	1,396	2,821	3,291	6,008
Other income (expense):				
Interest income	679	262	867	518
Interest expense	(3)	(89)	(59)	(177)
Early termination of credit agreement			(575)	
Other expense		(3)		(3)
Income from continuing operations before income taxes	2,072	2,991	3,524	6,346
Provision for income taxes	779	1,120	1,241	2,320
Net income from continuing operations	1,293	1,871	2,283	4,026
Income from discontinued operations, net of income taxes	29,479	1,197	29,583	1,856
Net income	\$ 30,772	\$ 3,068	\$ 31,866	\$ 5,882
Net income per basic common share:				
Continuing operations	\$ 0.06	\$ 0.09	\$ 0.11	\$ 0.18
Discontinued operations	1.39	0.05	1.39	0.09
Net income	\$ 1.45	\$ 0.14	\$ 1.50	\$ 0.27
Net income per diluted common share:				
Continuing operations	\$ 0.06	\$ 0.09	\$ 0.11	\$ 0.18
Discontinued operations	1.39	0.05	1.39	0.08
Net income	\$ 1.45	\$ 0.14	\$ 1.49	\$ 0.27

See notes to unaudited consolidated financial statements.

INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,866	\$ 5,882
Gain on sale of assets of discontinued operations	(30,332)	
Loss (income) from discontinued operations	749	(1,856)
Net income from continuing operations	2,283	4,026
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,116	2,292
Amortization of other intangible assets	3,999	4,757
Change in non-current deferred income tax liabilities	(773)	(774)
Termination of credit facility	494	
Other	174	87
Changes in operating assets and liabilities, net of effect of acquisitions:		
Decrease (increase) in accounts receivable, net	3,351	(108)
Decrease in prepaid and other current assets	1,458	1,551
Decrease in accounts payable and accrued expenses	(1,431)	(6,285)
Income tax benefit from stock options exercised	99	321
Net change in income taxes (receivable) payable	(2,427)	2,490
(Decrease) increase in deferred revenue	(867)	1,124
Net change in other assets and liabilities	(527)	(351)
Net Cash Provided by Continuing Operations	7,949	9,130
Net Cash Provided by Discontinued Operations	907	4,518
Net Cash Provided by Operating Activities	8,856	13,648
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net proceeds from sale of discontinued operations	91,969	
Acquisitions of businesses		(14,043)
Purchases of property and equipment	(886)	(1,407)
(Purchase) sales of short-term investments	(23,642)	3,207
Purchase of other investments held to maturity	(6,742)	
Amounts deposited in escrow fund	(3,000)	
Capitalized software development cost	(493)	(353)
Capitalized internal-use software	(304)	(119)
Proceeds from disposal of property and equipment		33
Net Cash Provided by (Used in) Continuing Operations	56,902	(12,682)
Net Cash Used in Discontinued Operations	(801)	(2,299)
Net Cash Provided by (Used in) Investing Activities	56,101	(14,981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued from stock options exercised	642	758
Purchase of treasury stock	(9,496)	
Principal payments on capital leases	(71)	(66)
Net Cash (Used in) Provided by Continuing Operations	(8,925)	692
Net Cash Used in Discontinued Operations	(106)	(174)
Net Cash (Used in) Provided by Financing Activities	(9,031)	518
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	55,926	(815)

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CASH AND EQUIVALENTS AT BEGINNING OF PERIOD		53,910		38,612
CASH AND EQUIVALENTS AT END OF PERIOD	\$	109,836	\$	37,797

See notes to unaudited consolidated financial statements.

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. **BASIS OF PRESENTATION**

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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 as adjusted to reflect the disposition of CRC (as defined in Note C). 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 June 30, 2003, and the consolidated results of operations and cash flows for the periods presented herein. Operating results for the three and six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ended December 31, 2003.

On April 8, 2003, the Company sold substantially all of the assets and liabilities of its wholly owned subsidiary CRC (See Note C - *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.

Certain reclassifications have been made to the financial statements of the prior period to conform to the June 30, 2003 presentation.

B. INVESTMENTS

Investments consist of debt securities acquired with cash not immediately needed in operations. Such amounts have original maturities exceeding one year and are stated at market value, which approximates amortized cost. As of June 30, 2003, investments consisted of corporate bonds with a market value of \$6,742,000 and maturities of between 12 and 18 months. Unrealized gains and losses on investments are immaterial for the three and six months ended June 30, 2003.

c. DISCONTINUED OPERATIONS

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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).

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 June 30, 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 G - *Segment Information*).

The transaction was completed on April 8, 2003. During the second quarter the Company received net proceeds of approximately \$92 million, representing the cash consideration for the assets sold less deal related expenses paid through June 30, 2003. The sale price remains subject to a post-closing adjustment based on the closing date balance sheet of CRC. Approximately \$3 million of the proceeds is 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 asserts claims under the Purchase Agreement prior to then. All proceeds held in escrow will remain classified as Restricted cash on the Consolidated Balance Sheet until made available to the Company.

The Company recognized a gain of \$30.3 million, net of income taxes associated with the transaction of \$15.9 million, all of which was recorded as part of discontinued operations during the second quarter of 2003.

Summary operating results for the discontinued STI operations follow:

(In thousands)	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
	* 2003	2002	* 2003	2002