INFORMATION HOLDINGS INC
Form 10-Q
August 09, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2004

OR

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

For the transition period from to .

Commission File No. 1-14371

INFORMATION HOLDINGS INC.

(Exact name of Registrant as specified in its charter)

Delaware	**06-1518007**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

2777 Summer Street, Suite 602 **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.

ýYes oNo

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

ýYes oNo

As of August 3, 2004, there were 20,922,714 shares of the Company s common stock, par value $0.01 per share, outstanding.

INFORMATION HOLDINGS INC.

Form 10-Q for the Quarter Ended June 30, 2004

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INFORMATION HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 2004 (Unaudited)	December 31, 2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,765	$ 39,693
Short-term investments	8,875	12,271
Restricted cash		3,000
Accounts receivable *(net of allowance for doubtful accounts of $538 and $693, respectively)*	39,434	37,650
Prepaid expenses and other current assets	3,699	5,669
Income taxes receivable	1,638	11,899
Deferred income taxes	2,001	2,001
Total current assets	97,412	112,183
Investments	97,219	83,207
Property and equipment, net	3,864	4,281
Identified intangible assets, net	67,078	70,248
Goodwill	99,431	100,871
Other assets	5,150	3,880
TOTAL	$ 370,154	$ 374,670
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 32,154	$ 32,073
Accrued expenses	12,746	18,124
Deferred revenue	24,546	25,753
Total current liabilities	69,446	75,950
Long-term deferred income taxes	14,957	16,307
Total liabilities	84,403	92,257
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 21,924,273 and 21,882,604 shares, respectively; outstanding 20,917,073 and 20,875,404 shares, respectively	219	219
Additional paid-in capital	248,844	247,964
Retained earnings	42,456	38,304
Treasury stock, at cost, 1,007,200 shares, in both periods	(14,723)	(14,723)
Accumulated other comprehensive income	8,955	10,649
Total stockholders equity	285,751	282,413
TOTAL	$ 370,154	$ 374,670

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, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Revenues:				
Product	$ 12,961	$ 11,845	$ 28,159	$ 23,906
Service	10,119	7,910	19,521	15,506
Total revenues	23,080	19,755	47,680	39,412
Cost of sales:				
Product	3,173	3,067	6,402	6,063
Service	3,755	3,320	7,037	6,692
Total cost of sales	6,928	6,387	13,439	12,755
Gross profit	16,152	13,368	34,241	26,657
Operating expenses:				
Selling, general and administrative	9,983	9,183	21,023	18,040
Depreciation and amortization	3,000	2,645	6,037	5,354
Total operating expenses	12,983	11,828	27,060	23,394
Income from operations	3,169	1,540	7,181	3,263
Other income (expense):				
Interest income, net	735	676	1,575	808
Costs associated with pending merger	(590)		(590)	
Early termination of credit agreement				(575)
Other income, net	15		318	
Income from continuing operations before income taxes	3,329	2,216	8,484	3,496
Provision for income taxes	1,152	833	2,971	1,230
Income from continuing operations	2,177	1,383	5,513	2,266
(Loss) income from discontinued operations, net of income taxes	(1,256)	29,389	(1,361)	29,600
Net income	$ 921	$ 30,772	$ 4,152	$ 31,866
Net income (loss) per basic common share:				
Continuing operations	$ 0.10	$ 0.07	$ 0.26	$ 0.11
Discontinued operations	(0.06)	1.39	(0.07)	1.39
Net income	$ 0.04	$ 1.45	$ 0.20	$ 1.50
Net income (loss) per diluted common share:				
Continuing operations	$ 0.10	$ 0.07	$ 0.26	$ 0.11
Discontinued operations	(0.06)	1.39	(0.06)	1.39
Net income	$ 0.04	$ 1.45	$ 0.20	$ 1.49
Weighted number of common shares outstanding:				
Basic	20,901	21,167	20,893	21,302
Diluted	21,066	21,198	21,027	21,330

See notes to unaudited consolidated financial statements.

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INFORMATION HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (*in thousands*)

	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,152	$ 31,866
Gain on sale of assets of discontinued operations		(30,332)
Loss from discontinued operations	1,361	732
Income from continuing operations	5,513	2,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,981	1,954
Amortization of other intangible assets	4,056	3,400
Gain on sale of assets	(418)	
Change in deferred income taxes	(1,532)	(773)
Termination of credit facility		494
Net amortization of premiums on investments available for sale	1,236	
Other	(763)	108
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable, net	(1,972)	3,301
Decrease in prepaid and other current assets	1,230	1,497
Decrease in accounts payable and accrued expenses	(5,471)	(1,533)
Income tax benefit from stock options exercised	99	99
Net change in income taxes payable (receivable)	11,081	(2,533)
Decrease in deferred revenue	(1,409)	(1,197)
Net change in other assets and liabilities	38	(193)
Net Cash Provided by Continuing Operations	13,669	6,890
Net Cash Provided by Discontinued Operations		1,801
Net Cash Provided by Operating Activities	13,669	8,691
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of discontinued operations, net of transaction costs	(798)	91,969
Purchases of property and equipment	(1,150)	(860)
Purchases of other investments held to maturity		(6,742)
Purchases of investments available for sale	(61,314)	(23,642)
Proceeds from sales and maturities of investments available for sale	49,462	
Net proceeds on sale of assets	515	
Amounts received from (deposited in) escrow funds	3,000	(3,000)
Capitalized software development cost	(1,647)	(493)
Capitalized internal-use software	(189)	(304)
Net Cash (Used in) Provided by Continuing Operations	(12,121)	56,928
Net Cash Used in Discontinued Operations		(827)
Net Cash (Used in) Provided by Investing Activities	(12,121)	56,101
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued from stock options exercised	781	642
Purchase of common stock for treasury		(9,496)
Principal payments on capital leases	(63)	(71)
Net Cash Provided by Continuing Operations	718	(8,925)
Net Cash Used in Discontinued Operations		(106)
Net Cash Provided by Financing Activities	718	(9,031)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(194)	165
NET INCREASE IN CASH AND EQUIVALENTS	2,072	55,926

CASH AND EQUIVALENTS, BEGINNING OF PERIOD		39,693		53,910
CASH AND EQUIVALENTS, END OF PERIOD	$	41,765	$	109,836

See notes to unaudited consolidated financial statements.

INFORMATION HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

A. THE COMPANY

Information Holdings Inc. (IHI or the Company) is a leading provider of intellectual property and regulatory information products, software and services to professional end-users. IHI s data businesses, which include MicroPatent, Master Data Center (MDC) and IDRAC, provide a broad array of databases, information products and complementary services for intellectual property and regulatory professionals. IHI s software segment includes Liquent, a leading provider of life science regulatory intelligence and publishing solutions.

B. THE THOMSON MERGER AGREEMENT

On June 28, 2004, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with The Thomson Corporation (Thomson), a global leader in providing integrated information solutions to business and professional customers whose common shares are traded on the Toronto Stock Exchange (TSX:TOC) and the New York Stock Exchange (NYSE:TOC). The provisions of the Merger Agreement are complicated and not easily summarized. Readers should review the definitive proxy statement and proxy statement supplement (the Proxy Statement) filed with the SEC on July 27, 2004 and August 6, 2004, respectively which contains additional information about the merger and includes a copy of the Merger Agreement.

Under the terms of the Merger Agreement, a Thomson subsidiary will acquire all of the outstanding common stock of Information Holdings Inc. at a price of $28.00 per share in cash, representing an aggregate cost of approximately $441 million, net of cash and investments held by IHI, as of the date of the Merger Agreement. Consummation of the transaction is subject to various conditions, including approval by IHI s stockholders and regulatory approvals. The Company will hold a special meeting of its stockholders to consider and vote on proposals to approve the merger and related matters on August 31, 2004 (the Special Meeting). At the time the merger becomes effective, each share of the Company s common stock will be converted into the right to receive $28.00 in cash. Options to acquire shares under the Company s 1998 Stock Option Plan will become fully vested and be converted into the right to receive the excess of $28.00 per share over the applicable stock option exercise price. Fees associated with the transaction and incurred for the three and six months ended June 30, 2004 approximated $0.6 million. IHI expects to incur additional expenses related to this transaction totaling between approximately $5 million and $6 million, which include: investment banking, legal and accounting fees, certain fees related to the filing, printing and mailing of the related Proxy Statement, and other fees and expenses associated with the transaction.

The Company has agreed that from the date of the signing of the Merger Agreement, until the closing date of the merger, it will cause each of its subsidiaries to carry on business in the ordinary course, and use commercially reasonable efforts to preserve intact its respective current business organizations, to keep its assets in good working condition, to maintain the confidential nature of and legal protections applicable to material intellectual property rights, to keep available the services its respective current executive officers and key employees and to maintain good working relationships with persons having a material business relationship with the Company. The Company has also agreed to certain restrictions during this period related to items including, among other things: changes in capital structure, dividends, changes in organizational documents, acquisitions and dispositions, material agreements, employee benefits

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and compensation, accounting and tax practices, and capital expenditures. These items are discussed in greater detail in the Proxy Statement.

The Proxy Statement includes a description of the termination provisions included in the Merger Agreement. Pursuant to the Merger Agreement, the Company must pay to Thomson an amount equal to $20 million if the Merger Agreement is terminated under the circumstances set forth in the Merger Agreement and the Proxy Statement. As described in the proxy statement supplement, under the terms of the proposed settlement of the purported class action lawsuit described in Note K - *Subsequent Event,* the termination fee payable to Thomson will be reduced from $20 million to $18.5 million.

C. BASIS OF PRESENTATION

The consolidated balance sheet of the Company at December 31, 2003 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, 2003 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, 2004, 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, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

The consolidated financial statements include the accounts of IHI and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

During 2003, the Company sold substantially all of the assets and certain liabilities of its wholly owned subsidiaries Transcender LLC and CRC Press and Subsidiaries (See Note F *Discontinued Operations*). Accordingly, for financial statement purposes, the assets, liabilities, results of operations and cash flows of these components have been segregated from those of continuing operations and are presented in the Company s consolidated financial statements as discontinued operations for all periods presented herein.

D. ACCOUNTING FOR STOCK-BASED COMPENSATION

Under the terms of the Merger Agreement, the Company is not permitted to grant future stock options between the date of the Merger Agreement and the effective date of the merger without Thomson s consent. Prior to the date of the Merger Agreement, the Company granted stock options for a fixed number of shares to employees and non-employee directors 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 Opinion No. 25, *Accounting for Stock Issued to Employees,* which utilizes the intrinsic value method. Since stock options were 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 in the Company s Consolidated Statements of Operations.

Had compensation cost for the Company s stock option plan been recognized based upon the estimated fair value of the options at the dates of grant consistent with the requirements of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, the Company s net income and earnings per share would have been the pro forma amounts indicated below:

(In thousands, except per share data):	**Three Months Ended June 30, 2004**	**Three Months Ended June 30, 2003**	**Six Months Ended June 30, 2004**	**Six Months Ended June 30, 2003**
Net income as reported	$ 921	$ 30,772	$ 4,152	$ 31,866
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(287)	(506)	(907)	(1,394)
Pro forma net income	$ 634	$ 30,266	$ 3,245	$ 30,472
Earnings per common share:				
Basic as reported	$ 0.04	$ 1.45	$ 0.20	$ 1.50
Basic pro forma	$ 0.03	$ 1.43	$ 0.16	$ 1.43
Diluted as reported	$ 0.04	$ 1.45	$ 0.20	$ 1.49
Diluted pro forma	$ 0.03	$ 1.43	$ 0.15	$ 1.43

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. For purposes of pro forma disclosure, the estimated fair value of options granted is amortized to expense over the option vesting period.

The Company estimates the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model (the Black-Scholes Model) using certain assumptions. These assumptions are evaluated and revised, as necessary, to reflect market conditions and the Company s experience. The Black-Scholes Model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the estimate, in management s opinion, the existing Black-Scholes Model may not provide a reliable measure of the fair value of the Company s employee stock options.

E. ACQUISITION

On December 1, 2003, the Company acquired the issued share capital of CDC Solutions Limited (CDC), a private company based in the United Kingdom for cash consideration of approximately $26,287,000 (Cash Consideration). CDC is a leading provider of life science regulatory intelligence and publishing solutions. The Cash Consideration includes approximately $22,126,000 of initial consideration, approximately $3,836,000 currently held in escrow for estimated guaranteed earnouts as defined and calculated in accordance with the underlying Share Purchase Agreement (SPA), and approximately $325,000 of closing costs associated with the transaction.

In the first quarter of 2004 the Company received a valuation of the fair value of the identified intangible assets and their estimated useful lives which range from four to ten years. The purchase price of CDC was accordingly adjusted to reflect acquired identified intangible assets of $4,810,000, and the related deferred tax liability recorded as a result of the gross up of acquired intangible assets was adjusted to $1,443,000 based on the valuation. In addition, during the first six months of 2004 certain other adjustments to the purchase price were recorded to increase net tangible assets acquired to $12,000. Accordingly, non-deductible goodwill was adjusted to $22,908,000.

In accordance with the Company s plan to integrate the CDC business with its Liquent business, the Company accrued as of the acquisition date approximately $765,000 of costs at CDC related to severance and for the remaining lease costs related to abandoned property. As of June 30, 2004, the Company paid $398,000 of severance and $94,000 of lease costs against the liability. For the year ended December 31, 2003, severance and integration costs of $749,000 had been charged to expense at Liquent related to the CDC integration. The remaining liability at December 31, 2003 related to these costs was $606,000. During the first quarter of 2004, Liquent charged additional severance costs related to the CDC integration of approximately $108,000 to Selling, general and administrative expense. The Company paid $256,000 of severance costs and $155,000 of lease costs during the first six months of 2004. The balance of the severance costs are expected to be paid by the third quarter of 2004 and the lease costs over the life of the lease, which terminates in October 2005.

In addition to guaranteed future consideration of approximately $3,836,000, which has been paid into escrow, the sellers were entitled to additional consideration dependent on the revenue of CDC for the year ended December 31, 2003. Based on calculations outlined in the SPA, the Company accrued additional consideration as of December 31, 2003 of approximately $1,147,000, which was paid during the second quarter of 2004.

The Company has a further liability to the sellers for Earnout Consideration (as defined in the SPA) which is to be calculated by March 31, 2007 based on formulas related to revenues and EBITDA (earnings before interest, taxes, depreciation and amortization) of the combined Liquent-CDC business for the three-year period ending December 31, 2006 (the Earnout Period). Amounts due for the Earnout Consideration, if any, will be paid during the second quarter of 2007, unless the provisions related to a change in control discussed below come into effect. Earnout Consideration will become due if the combined business has greater than 10% annual compound revenue growth during the Earnout Period, or if EBITDA exceeds $15,000,000 for either the year ending December 31, 2006 or on average for the three years of the Earnout Period. The Earnout Consideration is subject to a maximum of £10,000,000 and could be as low as zero. The Company currently believes that Earnout Consideration could reasonably range from $6 million to $10 million.

In the event of a sale of all or substantially all of the share capital of the Company or the combined Liquent-CDC business during the Earnout Period, the sellers have the right, but not an obligation, to elect a payout of the Earnout Consideration. The payout of the Earnout Consideration in the event of a sale varies depending on the year of such sale and the operating performance of the combined business through the date of sale. The range of payout is zero to £5,000,000 if a sale occurs in 2004, zero to £7,500,000 if a sale occurs in 2005 and zero to £10,000,000 if a sale occurs in 2006.

The CDC 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 2003 acquisition of CDC had taken place on January 1, 2003:

(In thousands, except per share data)		**Three Months Ended June 30, 2003**		**Six Months Ended June 30, 2003**
Revenues	$	22,659	$	45,023
Net income	$	523	$	520
Basic income per common share	$	0.02	$	0.02
Diluted income per common share	$	0.02	$	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 acquisition been consummated as of the above date, nor are they necessarily indicative of future operating results.

F. DISCONTINUED OPERATIONS

On December 22, 2003, the Company entered into an Asset Purchase Agreement to sell substantially all of the assets and certain liabilities of Transcender LLC (Transcender) to Self Test Software, Inc., a subsidiary of Kaplan, Inc. (the Transcender Buyer). The transaction was completed on December 31, 2003. The Company received net proceeds of $9.2 million, representing the cash consideration for the assets sold less deal related expenses. During the first six months of 2004, the Company recorded a loss on sale of $1.4 million, net of income tax benefits, within discontinued operations primarily related to charges for abandoned real estate lease commitments and severance costs related to employees terminated in 2004. Prior to sale, Transcender was included as part of the software segment (See Note I *Segment Information*).

Pursuant to an Interim Transition Services Agreement (the TSA) between the Company and the Transcender Buyer, the Company acted as a service provider to the Transcender Buyer for the period from December 31, 2003 to May 31, 2004 (the Transition Period). The TSA required the Company to retain all employees of Transcender through March 31, 2004 and certain employees through May 31, 2004. The Transcender Buyer reimbursed the Company in full for all employee costs and incidental expenses during the Transition Period. The Company was responsible to pay severance costs to any employee that was not offered employment or did not accept employment with the Transcender Buyer (the Terminated Employees). During the first six months of 2004, the Company accrued and paid severance and related costs of approximately $0.3 million to the Terminated Employees; which costs resulted in a charge in discontinued operations of approximately $0.2 million, net of income tax benefits. The Company does not expect to incur any additional severance and related costs associated with the Terminated Employees subsequent to June 30, 2004. The Transcender Buyer also reimbursed the Company in full for all real estate costs through March 31, 2004 and for a portion of real estate costs from April 1, 2004 through May 31, 2004. Effective May 31, 2004 (the Abandonment Date), the Company abandoned office and warehouse space associated with its former Transcender operations (the Transcender Space). As of the Abandonment Date, the Company accrued approximately $1.7 million representing future lease commitments, net of estimated sublease income of $1.0 million associated with the Transcender Space. The Company recorded a charge of $1.1 million, net of income tax benefits, in discontinued operations during the second quarter of 2004 related to the abandoned properties. The Company paid approximately $0.1 million of lease costs during the second quarter of 2004. The remaining lease commitment is expected to be paid over the life of the lease, which expires in March 2008. The Company is actively seeking to sublet the Transcender Space, but there is no assurance that the Company will be able to sublet the space. Accordingly, the Company may incur an additional charge to discontinued operations related to the remaining lease commitment in the future.

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. The transaction was completed on April 8, 2003. The Company received net proceeds of approximately $90 million, representing the cash consideration for the assets sold less deal related expenses and an adjustment made based on the closing balance sheet of CRC in accordance with the Purchase Agreement. On April 8, 2004 the Company received $3.0 million of proceeds previously held in escrow related to representations and warranties contained in the Purchase Agreement. CRC comprised the entirety of the Company s former scientific and technology information (STI) segment. Subsequent to the date of sale, the Company no longer has operations in the STI segment (See Note I *Segment Information*).

Summary operating results for the discontinued operations follow:

(In thousands)	**Three Months Ended June 30, 2004**	**Three Months Ended June 30, 2003**	**Six Months Ended June 30, 2004**	**Six Months Ended June 30, 2003**
Revenues	$	$ 2,342	$	$ 15,698
Loss from discontinued operations before income taxes		(1,477)		(1,098)
Benefit from income taxes on discontinued operations		(534)		(366)
(Loss) gain on sale of discontinued operations, net of income taxes	(1,256)	30,332	(1,361)	30,332
(Loss) income from discontinued operations, net of income taxes	$ (1,256)	$ 29,389	$ (1,361)	$ 29,600

G. EARNINGS (LOSS) PER SHARE

The following table sets forth the denominators used in computing basic and diluted earnings (loss) per common share for the periods indicated:

(In thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Weighted average common shares outstanding:				
Basic	20,901	21,167	20,893	21,302
Net effect of dilutive stock options based on the treasury stock method	165	31	134	28
Diluted	21,066	21,198	21,027	21,330

For the three months ended June 30, 2004 and 2003, 401,748 and 998,239 stock options, respectively, were excluded from the computation of diluted earnings per common share due to their antidilutive effect. For the six months ended June 30, 2004 and 2003, 410,748 and 1,011,239 stock options, respectively, were excluded from the computation of diluted earnings per common share due to their antidilutive effect.

H. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On December 5, 2002, Venturetek, L.P., Richard Elkin, Antoine Bernheim, Stacy Bernheim and Genstar, Ltd., derivatively as shareholders of Rand Publishing Co., Inc. (Rand) and individually, on their own behalf (the Plaintiffs) filed a complaint in the Supreme Court of the State of New York against the Company (the IHI Action) alleging that the Company s predecessor fraudulently acquired assets or businesses that were corporate opportunities of Rand and that such acquisitions constituted a conversion . The Plaintiffs sought a constructive trust over all of the Company s shares and options and damages of approximately $750 million. Additionally, the Company s President and Chief Executive Officer, Mason P. Slaine, and Michael E. Danziger, a member of the Board of Directors, were named as defendants in a related action entitled Venturetek, L.P., et al. v. Rand Publishing Co., Inc., et al., filed in the Supreme Court of the State of New York (the Rand Action). Similar to the IHI Action, the Plaintiffs in the Rand Action alleged that certain acquisitions of assets and businesses by the Company constituted corporate opportunities usurped from Rand and that Messrs. Slaine and Danziger breached their fiduciary duties in connection therewith. The Plaintiffs in the Rand action sought a constructive trust over Messrs. Slaine s and Danziger s shares of the Company and damages alleged to be in excess of $150 million. In February 2003, the Company moved to dismiss the complaint in its entirety on the grounds that it failed to state a claim as a matter of law and that it was barred by the applicable statutes of limitations. In a written Memorandum Decision dated April 21, 2004, the Court granted the Company s motion and dismissed the complaint in its entirety. By Notice of Appeal filed May 13, 2004, the Plaintiffs appealed the trial court s dismissal of the action to the Supreme Court, Appellate Division, First Department. The Company believes that the complaint in its entirety is without merit and it intends to vigorously contest the claims.

In addition, from time to time the Company is a party to other legal and administrative proceedings, claims, and litigation arising in the ordinary course of its business. While the outcome of these matters is currently not determinable, management does not expect that the

ultimate costs to resolve these matters either singularly or in aggregate will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows (See Note K *Subsequent Event*).

Merger Commitments

In connection with the termination provisions of the Merger Agreement, the Company could be required to pay Thomson a termination fee equal to $20 million under certain conditions as described in the Merger Agreement and as described in the Proxy Statement. As described in the proxy statement supplement, under the terms of the proposed settlement of the purported class action lawsuit described in Note K - *Subsequent Event,* the termination fee payable to Thomson will be reduced from $20 million to $18.5 million. In addition, the Company has an engagement letter with Morgan Stanley & Company that provides for the payment of a transaction fee equal to 1% of the transaction value upon completion of the merger. The transaction value, estimated at $441 million as of the date of the Merger Agreement, is defined as the gross proceeds to the stockholders, less the amount of cash and marketable securities held by the Company at the closing date.

Lease Commitments

The Company primarily leases office space, and office and computer equipment, for its primary domestic operating units based principally in the following states: Connecticut, Michigan, Pennsylvania and Virginia. The Company also leases office space for its primary foreign operating units based principally in France and England. The leases generally provide for the lessee to pay taxes, maintenance, insurance and certain other operating costs of the leased property, and certain leases include escalation clauses.

During the second quarter of 2004, the Company s MicroPatent and Liquent units entered into new office leases for its operations in California and in Pennsylvania. The new leases are replacements of expiring leases previously existing at December 31, 2003 and will expire in 2007 and in 2015, respectively. Also during the second quarter of 2004, the Company abandoned office and warehouse space associated with its Transcender Space. Future lease obligations associated with the Transcender Space are reflected below, net of estimated sublease income (See Note F *Discontinued Operations*).

Future annual minimum lease payments including estimated escalation amounts under noncancelable operating leases as of June 30, 2004 are as follows (in thousands):

Year ending December 31,		
2004 (remaining six months)	$	1,664
2005		2,662
2006		1,624
2007		1,371
2008		910
Thereafter		3,470
Total minimum lease payments	$	11,701

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I. SEGMENT INFORMATION

Operating segments are defined as components of an enterprise for which separate financial information is available and regularly reviewed by the Company s senior management. The Company evaluates performance based on EBITDA of the respective business units.

The Company has two reportable segments contributing to its results from continuing operations: data and software. The data segment, which includes MicroPatent, MDC and IDRAC, provides a broad array of databases, information products and complementary services for intellectual property and regulatory professionals. The software segment is comprised solely of Liquent, a leading provider of life science regulatory intelligence and publishing solutions. Other includes unallocated corporate items, which primarily consists of corporate expenses and interest income earned on the Company s taxable fixed income portfolio program. Corporate assets consist principally of cash, cash equivalents and investments.

The following tables set forth the information for the Company s reportable segments of continuing operations for the periods indicated (in thousands):

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
REVENUES FROM EXTERNAL CUSTOMERS:				
Data	$ 16,042	$ 14,394	$ 31,594	$ 28,209
Software (1)	7,038	5,354	16,086	11,196
Other		7		7
	$ 23,080	$ 19,755	$ 47,680	$ 39,412
EBITDA:				
Data	$ 6,869	$ 5,609	$ 13,648	$ 11,160
Software (1)	565	42	2,652	383
Other	(1,765)	(1,417)	(3,204)	(3,416)
	$ 5,669	$ 4,234	$ 13,096	$ 8,127
INCOME (LOSS) FROM OPERATIONS:				
Data	$ 4,593	$ 3,524	$ 8,670	$ 6,993
Software (1)	(246)	(558)	1,011	(860)
Other	(1,178)	(1,426)	(2,500)	(2,870)
	$ 3,169	$ 1,540	$ 7,181	$ 3,263

(1) Results include operations of CDC from the date of the acquisition December 1, 2003 only (See Note E - *Acquisition*).

The Company evaluates the performance of its segments based primarily on revenues and EBITDA. The Company believes that EBITDA is the most useful measure of business unit earnings because it more closely approximates the cash generating ability of each business compared to income (loss) from operations. Income (loss) from operations includes charges for depreciation and amortization, the majority of which relate to amortization of intangible assets. The Company generally does not incur capital expenditures to replace intangible assets within existing operations.

A reconciliation of EBITDA to income from continuing operations is as follows (in thousands):

	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
EBITDA	$ 5,669	$ 4,234	$ 13,096	$ 8,127
Depreciation and amortization (1)	(3,075)	(2,694)	(6,187)	(5,439)
Interest income, net	735	676	1,575	808
Income from continuing operations before income taxes	3,329	2,216	8,484	3,496
Provision for income taxes	1,152	833	2,971	1,230
Income from continuing operations	$ 2,177	$ 1,383	$ 5,513	$ 2,266

(1) Depreciation and amortization includes $75,000 and $49,000 of amortization of capitalized software, classified as Cost of sales for the three months ended June 30, 2004 and 2003, respectively. For the six months ended June 30, 2004 and 2003, respectively, depreciation and amortization includes $150,000 and $85,000 of amortization of capitalized software classified as Cost of sales.

J. COMPREHENSIVE INCOME (LOSS)

Comprehensive income is comprised of net income and other comprehensive income (loss). Accumulated other comprehensive income includes foreign currency translation adjustments and unrealized gains and losses, net of the related tax effect, on available-for-sale securities and on derivative instruments designated and qualifying as cash flow hedges. The following table is a reconciliation of the Company s net income to comprehensive income (loss):

(in thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Net income	$ 921	$ 30,772	$ 4,152	$ 31,866
Other comprehensive income:				
Change in net unrealized gains and losses on available-for-sale investments	(1,812)		(1,600)	
Change in net unrealized gains and losses on cash flow hedges	212		(166)	
Reclass adjustment for net (losses) gains realized in net income	(41)		165	
Foreign currency translation adjustments	(444)	(223)	(701)	(409)
Estimated tax benefit	622		608	
Net change in other comprehensive (loss) income	(1,463)	(223)	(1,694)	(409)
Comprehensive (loss) income	$ (542)	$ 30,549	$ 2,458	$ 31,457

K. SUBSEQUENT EVENT

On July 1, 2004, an action was filed as a purported class action in the Court of Chancery of the State of Delaware in and for New Castle County (Myszkowski v. Information Holdings Inc. et al., C.A. No. 537-N) against IHI, its directors and Thomson (the Class Action). The complaint alleges, among other things, that approval of the merger by the Company s directors amounted to a breach of fiduciary duty, that the $28.00 cash consideration per share to be received by the Company s stockholders in the merger does not represent the true value of IHI and that there were relationships among Thomson, Warburg Pincus LLC, a New York limited liability company that manages Warburg, Pincus Ventures L.P., and some of the Company s directors that created conflicts of interest preventing these directors from acting in the best interest of the Company s stockholders. The complaint asks for an injunction against the merger and damages as well as awarding the plaintiffs the costs and disbursements of this Class Action, including attorneys and experts fees. The plaintiff and the defendants have negotiated a settlement to dismiss the action with prejudice, subject to (i) the drafting and execution of the settlement documents and the other agreements necessary to effectuate the terms of the proposed settlement; (ii) the completion by the plaintiff and his counsel of appropriate confirmatory discovery in the action sufficient to satisfy the plaintiff s counsel that the proposed settlement is fair and reasonable; (iii) final court approval of the settlement and dismissal of the action with prejudice and without awarding costs to any party, except as agreed by the parties; and (iv) consummation of the merger, provided, that this condition (iv) shall be deemed to have been satisfied if the merger is not consummated due to (a) the merger not receiving the requisite vote of holders of outstanding shares of IHI common stock or (b) circumstances that give rise to the right of Thomson to receive from IHI a termination fee pursuant to the terms of the Merger Agreement. As part of the settlement, IHI has agreed to provide the additional disclosure set forth in the proxy statement supplement and to pay fees and expenses of the plaintiff s counsel in the amount of $280,000. Additionally, Thomson agreed to reduce from $20 million to $18.5 million the termination fee to which it is entitled if the Merger Agreement is terminated under certain circumstances as described in the Merger Agreement and the Proxy Statement. IHI and the other defendants continue to deny all of the allegations of wrongdoing contained in the complaint. The settlement is not, and should not be construed as, an admission of wrongdoing or liability by any defendant.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis presents a review of Information Holdings Inc. (IHI or the Company) for the three and six months ended June 30, 2004 and 2003. 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 2003 Annual Report on Form 10-K.

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. Actual results of the Company could differ materially from those anticipated in these forward-looking statements as a result of certain risks and uncertainties. Readers are cautioned not to place undue reliance on the forward-looking statements and that forward-looking statements contained in this Form 10-Q should be read in conjunction with the Company s disclosures within this Item 2 and under the heading Item 1. Business Risk Factors contained in the Company s 2003 Annual Report on Form 10-K. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise.

Proposed Merger with Thomson

On June 28, 2004, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with The Thomson Corporation (Thomson), a global leader in providing integrated information solutions to business and professional customers. Under the terms of the Merger Agreement, a Thomson subsidiary will acquire all of the outstanding common stock of Information Holdings Inc. at a price of $28.00 per share in cash, representing an aggregate cost of approximately $441 million, net of cash and investments held by IHI, as of the date of the Merger Agreement. Consummation of the transaction is subject to various conditions, including approval by IHI s stockholders and standard regulatory approvals. The Company will hold a special meeting of its stockholders to consider and vote on proposals to approve the merger and related matters on August 31, 2004 (the Special Meeting). At the time the merger becomes effective, each share of the Company s common stock will be converted into the right to receive $28.00 in cash. Options to acquire shares under the Company s 1998 stock option plan will become fully vested and be converted into the right to receive the excess of $28.00 per share over the applicable stock option exercise price. Fees associated with the transaction and incurred for the three and six months ended June 30, 2004 approximated $0.6 million. IHI expects to incur additional expenses related to this transaction totaling between approximately $5 million and $6 million, which include: investment banking, legal and accounting fees; certain fees related to the filing, printing and mailing of the related Proxy Statement; and other fees and expenses associated with the transaction.

The Company has agreed that from the date of the signing of the Merger Agreement, until the closing date of the merger, it will cause each of its subsidiaries to carry on business in the ordinary course, and use commercially reasonable efforts to preserve intact its respective current business organizations, to keep its assets in good working condition, to maintain the confidential nature of and legal protections applicable to material intellectual property rights, to keep available the services its respective current executive officers and key employees and to maintain good working relationships with persons having a material business relationship with the Company. The Company has also agreed to certain restrictions during this period related to items including, among other things: changes in capital structure, dividends, changes in organizational documents, acquisitions and dispositions, material agreements, employee benefits and compensation, accounting and tax practices, and capital expenditures.

Overview

The discussions that follow do not take into account the potential impact of the Company s proposed merger with Thomson announced on June 28, 2004, except for costs associated with the planned merger which are reflected in the Company s results for the three and six months ended June 30, 2004.

Impact of Acquisitions and Divestitures

A key component of the Company s historical growth has been to pursue acquisitions 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 15 substantial acquisitions, including seven in the data segment, two in the software segment and six in the former scientific and technology information and IT learning segments, as well as some minor acquisitions that are not otherwise disclosed herein.

The Company has two reportable segments contributing to its results from continuing operations: data and software. The data segment, which includes MicroPatent, Master Data Center (MDC) and IDRAC, provides a broad array of databases, information products and complementary services for intellectual property and regulatory professionals. The software segment is comprised solely of Liquent, a leading provider of life science regulatory intelligence and publishing solutions. Other includes unallocated corporate items, which primarily consists of corporate expenses and interest income earned on the Company s taxable fixed income portfolio program (the Investment Program). Corporate assets consist principally of cash and cash equivalents and investments.

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 CRC Press and its subsidiaries (CRC) to CRC Press I LLC and Routledge No. 2 Limited, both wholly owned subsidiaries of Taylor & Francis Group plc. The transaction was completed on April 8, 2003.

On December 1, 2003, the Company acquired the issued share capital of CDC Solutions Limited (CDC) for cash consideration of approximately $26.3 million. CDC is a leading provider of life science regulatory intelligence and publishing solutions that is being integrated with the Company s Liquent business. The results of operations of the acquired business has been included in the Consolidated Statement of Operations from the date of acquisition. Since CDC has been combined with Liquent, CDC operations are included in the software segment for reporting purposes.

On December 22, 2003, the Company sold its Transcender LLC (Transcender) business to a subsidiary of Kaplan, Inc. (Kaplan). Under the terms of the Asset Purchase Agreement , Kaplan acquired substantially all of the assets and assumed certain operating liabilities. The transaction had an effective date of December 31, 2003.

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, all assets, liabilities, results of operations and cash flows of Transcender and CRC have been segregated from those of continuing operations and are presented in the Company s financial statements as discontinued operations. Additionally, the Company s financial statements have been reclassified to reflect Transcender and CRC as discontinued operations for all prior periods presented herein.

Critical Accounting Policies

The discussion and analysis of the Company s financial condition and results of operations are based on the Company s consolidated financial statements. The preparation of these financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include, but are not limited to, revenue recognition, bad debt allowances, income taxes, and the valuation of goodwill and other identified intangible assets. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company s critical accounting policies are disclosed in the Company s 2003 Annual Report on Form 10-K. There have been no material changes to these policies during the first six months of fiscal 2004.

Consolidated Results of Operations

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Summary

Total revenues increased $3.3 million, or 17%, to $23.1 million from $19.8 million. Revenues increased by $1.6 million, or 11%, in the data segment and $1.7 million, or 32%, in the software segment. During the quarter ended June 30, 2004, the Company derived approximately 56.2% of its revenues from product sales and approximately 43.8% from its service revenues.

Product revenues, which are derived from software license agreements, database subscriptions, and the sale of patent searching, retrieval and analysis products, increased $1.1 million, or 9%, to $13.0 million from $11.8 million. Overall, new and existing customers increased demand for the Company s products in 2004. MicroPatent experienced increased volume of core subscription product sales and in file history transactional revenues, while IDRAC experienced an increase in database subscriptions. Product revenues also increased as the result of the acquisition of CDC in December 2003. Service revenues, which include fees for software maintenance, consulting and training, as well as from patent annuity and trademark renewal payment services, increased $2.2 million, or 28%, to $10.1 million from $7.9 million. The increase was primarily attributable to the growth of the service business as a result of the acquisition of CDC. Service revenues also increased at MDC primarily as the result of volume increases in intellectual property management services, due to increased sales of existing services to new customers, in addition to increased average pricing.

Total cost of sales increased $0.5 million, or 8%, to $6.9 million from $6.4 million. Gross profit margins increased to 70.0% in the second quarter of 2004, from 67.7% for the corresponding period in 2003. The improvement in gross profits was due to a shift in sales mix towards higher margin products at MicroPatent and a favorable impact on foreign exchange at IDRAC, as well as cost efficiencies as a result of the successful integration of the Company s Liquent and CDC business units.

Selling, general and administrative expenses (SG&A) increased by $0.8 million, or 9%, to $10.0 million from $9.2 million due primarily to operating expenses related to CDC. Depreciation and amortization increased by $0.4 million, or 13%, to $3.0 million from $2.6 million due primarily to amortization of intangible assets associated with the acquisition of CDC and the impact of foreign exchange fluctuations on amortization of intangible assets in the Company s IDRAC unit during the second quarter of 2004.

Based on the factors above, income from operations increased $1.6 million, or 106%, to $3.2 million from $1.5 million.

During the second quarter of 2004, the Company recorded $0.6 million of non-operating expenses directly related to legal and accounting services associated with the recently announced merger with Thomson.

Net interest income remained constant at $0.7 million in the periods. Interest income increased by approximately $0.2 million in 2004 due primarily to increased interest income resulting from higher yields earned in the Company s Investment Program initiated in August 2003, coupled with interest earned on the invested cash proceeds received from the sale of Transcender. This increase was offset by foreign exchange losses of $0.2 million related to interest earned on a corporate loan with IDRAC.

Based on the factors above, income from continuing operations before income taxes increased by $1.1 million to $3.3 million from $2.2 million.

The provision for income taxes as a percentage of pre-tax income was approximately 35% in the second quarter of 2004, compared to approximately 38% for the corresponding period in 2003. The effective tax rate differs from statutory rates primarily as a result of state, local and foreign income taxes and permanent items. The decrease in the tax rate is due to the favorable impact of permanent book-tax differences, which increased in dollar amount due to the CDC acquisition, partially offset by the increase in pre-tax income.

Based on the factors above, income from continuing operations increased by $0.8 million to $2.2 million, or $0.10 per diluted common share, in the second quarter of 2004 from $1.4 million, or $0.07 per diluted common share, in the second quarter of 2003.

(Loss) income from discontinued operations approximated $(1.3) million, or $(0.06) per diluted common share, in the second quarter of 2004, compared to $29.4 million, or $1.39 per diluted common share, in the second quarter of 2003. Loss from discontinued operations in the second quarter of 2004 is related to charges for remaining abandoned real estate obligations and severance following the disposition of Transcender. Income from discontinued operations in the second quarter of 2003 is related to a gain on the disposition of the assets of CRC. The gain totaled $30.3 million, net of income taxes associated with the transaction of $15.9 million.

The Company evaluates the performance of its segments based primarily on revenues and EBITDA (earnings before interest, taxes, depreciation and amortization). The Company believes that EBITDA is the most useful measure of business unit earnings because it more closely approximates the cash generating ability of each business compared to income (loss) from operations. Income (loss) from operations includes charges for depreciation and amortization, the majority of which relate to amortization of intangible assets. The Company generally does not incur capital expenditures to replace intangible assets within existing operations. A reconciliation of segment EBITDA to income (loss) from continuing operations before income taxes is presented after the discussion of operating results.

Segment Review

Data

Total revenues increased $1.6 million, or 11%, to $16.0 million from $14.4 million. During the quarter ended June 30, 2004, the data segment derived approximately 72.1% of its revenues from product sales and approximately 27.9% from service revenues. Product revenues increased $0.9 million, or 8%, to $11.6 million from $10.7 million. The strongest areas of product revenue growth included: revenues from patent information subscriptions, as a result of strong growth in core subscriptions and an increase in transactional revenues related to file histories at MicroPatent; and database subscriptions at IDRAC. The primary growth driver in each area was increased volume. MicroPatent volume growth relates primarily to sales of PatentWeb and Aureka products to new customers, as well as file history sales to both new and existing customers. IDRAC volume growth relates primarily to increased sales of existing products and services to new customers, as well as a favorable foreign exchange impact due to strengthening of the Euro versus the U.S. dollar. Service revenues increased $0.8 million, or 20%, to $4.5 million from $3.7 million. Data segment service revenues, which are derived solely from MDC, increased primarily as the result of volume increases in intellectual property management services due to increased sales of existing services to new customers, in addition to increased average pricing.

Total segment cost of sales increased $0.4 million, or 10%, to $4.7 million from $4.3 million. Total segment gross profit margins increased to 70.8% in the second quarter of 2004, from 70.4% for the corresponding period in 2003. Gross product profit margins increased to 74.2% from 72.8%, while gross service profit margins decreased to 62.1% from 63.5%.   The increase in gross product profit margins is due primarily to higher gross profits at MicroPatent resulting from increased web based transactions which have relatively fixed costs, while the decrease in gross service profit margins is attributable to the increased production and customer service-related compensation expense at MDC. The Company expects gross service profits at MDC to improve during the last half of 2004 as a result of projected increases in revenues and relatively stable costs.

Income from operations increased $1.1 million, or 30%, to $4.6 million from $3.5 million. Income from operations increased due primarily to the revenue increases noted above, partially offset by the impact of foreign exchange fluctuations on amortization of intangible assets at IDRAC and an increase in compensation for management, production and customer service-related employees at MDC, based on volume growth.

EBITDA increased $1.3 million, or 22%, to $6.9 million from $5.6 million. EBITDA margins approximated 43% in the second quarter of 2004, compared to 39% for the corresponding period in 2003. The most significant factors in the increase were the growth in segment revenues, partially offset by increased compensation expense.

Software

Revenues increased $1.7 million, or 31%, to $7.0 million from $5.4 million. All revenues in the segment relate to Liquent. During the quarter ended June 30, 2004, Liquent derived approximately 80.2% of its revenues from service revenues and approximately 19.8% from product sales. Service revenues increased $1.5 million, or 35%, to $5.6 million from $4.2 million. The increase is mainly attributable to increased volume in maintenance revenues as a result of the acquisition of CDC, coupled with volume growth related to sales of core software products to existing customers of Liquent and CDC. Product revenues increased $0.2 million, or 20%, to $1.4 million from $1.2 million due to revenues associated with the acquisition of CDC. Software product revenues were below expected levels due to delayed license deals. A significant number of transactions expected to be closed in the second quarter of 2004 remain in the sales pipeline for completion in the second half of 2004. In addition, the Company expects to generate increased license sales from its new InSight product line during the last half of 2004.

Total segment cost of sales increased $0.1 million, or 6%, to $2.2 million from $2.1 million. Total segment gross profits increased to 68.0% during the second quarter of 2004, from 60.3% for the corresponding period in 2003. Gross service profit margins increased to 63.5% from 53.1%, while gross product profit margins increased to 86.3% from 86.0%. Total software segment gross profits increased

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primarily as a result of cost reduction initiatives and efficiencies resulting from the successful integration of the Company s Liquent and CDC business units.

Loss from operations in this segment decreased $0.3 million to $0.2 million from $0.6 million. The decrease is due primarily to revenue increases as a result of the acquisition of CDC, partially offset by: a full quarter of costs associated with CDC in the second quarter of 2004; the impact of below expected overall software revenues due to delayed license deals; and the impact of additional amortization of CDC intangible assets.

EBITDA in this segment increased $0.5 million to $0.6 million from $0.1 million. EBITDA margins approximated 8% in the second quarter of 2004, compared to 1% in the second quarter of 2003. The most significant factors in the increase were increased revenues and cost efficiencies resulting from the integration of CDC.

Other

Losses from other operations decreased by $0.2 million, to $1.2 million in second quarter of 2004 from $1.4 million in second quarter of 2003, due primarily to decreased legal expense and corporate bonuses.

During the second quarter of 2004, the Company recorded $0.6 million of non-operating expenses directly related to legal and accounting services associated with the recently announced merger with Thomson.

Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Summary

Total revenues increased $8.3 million, or 21%, to $47.7 million from $39.4 million. Revenues increased by $3.4 million, or 12%, in the data segment and $4.9 million, or 44%, in the software segment. During the first six months of 2004, the Company derived approximately 59.1% of its revenues from product sales and approximately 40.9% from service revenues.

Product revenues increased $4.3 million, or 18%, to $28.2 million from $23.9 million. Overall, new and existing customers increased demand for the Company s products in 2004. MicroPatent experienced increased volume of core subscription product sales and in file history transactional revenues, while IDRAC experienced an increase in database subscriptions. Product revenues also increased as the result of the acquisition of CDC in December 2003. Service revenues increased $4.0 million, or 26%, to $19.5 million from $15.5 million. The increase was primarily attributable to the growth of the service business as a result of the acquisition of CDC. Service revenues also increased at MDC primarily as the result of volume increases in intellectual property management services, due to increased sales of existing services to new customers, in addition to increased average pricing.

Total cost of sales increased $0.7 million, or 5%, to $13.4 million from $12.8 million. Gross profit margins increased to 71.8% in the first six months of 2004, from 67.6% in the corresponding period of 2003. The improvement in gross profits was due to a shift in sales mix towards higher margin products at MicroPatent, as well as cost efficiencies as a result of the successful integration of the Company s Liquent and CDC business units.

SG&A increased by $3.0 million, or 17%, to $21.0 million from $18.0 million due primarily to operating expenses related to CDC. Depreciation and amortization increased by $0.7 million, or 13%, to $6.0 million from $5.4 million due primarily to amortization of intangible assets associated with the acquisition of CDC and the impact of foreign exchange fluctuations on amortization of intangible assets in the Company s IDRAC unit during the first six months of 2004.

Based on the factors above, income from operations increased $3.9 million, or 120%, to $7.2 million from $3.3 million.

During the first six months of 2004, the Company recorded $0.6 million of non-operating expenses directly related to legal and accounting services associated with the recently announced merger with Thomson. The merger expenses were partially offset by a $0.4 million gain on sale of patents at MicroPatent recorded in 2004. During the first six months of 2003, the Company charged approximately $0.6 million to non-operating expenses associated with the early termination of a credit agreement. The early termination costs included approximately $0.5 million for the write-off of unamortized fees, representing a non-cash charge.

Net interest income increased by $0.8 million, or 95%, to $1.6 million from $0.8 million. Interest income increased by approximately $1.0 million in 2004 due primarily to increased interest income resulting from higher yields earned in the Company s Investment Program initiated in August 2003, coupled with interest earned on the invested cash proceeds received from the sales of CRC and Transcender. Interest income includes realized gains on the sale of bonds equal to approximately $0.2 million in the first six months of 2004. This increase was partially offset by foreign exchange losses of $0.2 million related to interest earned on a corporate loan with IDRAC.

Based on the factors above, income from continuing operations before income taxes increased by $5.0 million to $8.5 million from $3.5 million.

The provision for income taxes as a percentage of pre-tax income remained relatively stable at approximately 35% in the first six months of 2004 and 2003. The effective tax rate differs from statutory rates primarily as a result of state, local and foreign income taxes and permanent items. The tax rate remained relatively constant due to the favorable impact of permanent book-tax differences, which increased in dollar amount as a result of the CDC acquisition, offset by the increase in pre-tax income.

Based on the factors above, income from continuing operations increased by $3.2 million to $5.5 million, or $0.26 per diluted common share, in the first six months of 2004 from $2.3 million, or $0.11 per diluted common share, in the first six months of 2003.

(Loss) income from discontinued operations approximated $(1.4) million, or $(0.06) per diluted common share, in the first six months of 2004, compared to $29.6 million, or $1.39 per diluted common share, in the first six months of 2003. Loss from discontinued operations in the first six months of 2004 is related to charges for remaining abandoned real estate obligations and severance following the disposition of Transcender. Income from discontinued operations in the first six months of 2003 is related to a gain on the disposition of the assets of CRC. The gain totaled $30.3 million, net of income taxes associated with the transaction of $15.9 million.

A reconciliation of segment EBITDA to income (loss) from continuing operations before income taxes is presented after the discussion of operating results.

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Segment Review

Data

Total revenues increased $3.4 million, or 12%, to $31.6 million from $28.2 million. During the first six months of 2004, the data segment derived approximately 73.0% of its revenues from product sales and approximately 27.0% from service revenues. Product revenues increased $2.0 million, or 10%, to $23.1 million from $21.0 million. The strongest areas of product revenue growth included: revenues from patent information subscriptions, as a result of strong growth in core subscriptions and an increase in transactional revenues related to file histories at MicroPatent; and database subscriptions at IDRAC. The primary growth driver in each area was increased volume. MicroPatent volume growth relates primarily to sales of PatentWeb and Aureka products to new customers, as well as file history sales to both new and existing customers. IDRAC volume growth relates primarily to increased sales of existing products and services to new customers, as well as a favorable foreign exchange impact due to strengthening of the Euro versus the U.S. dollar. Service revenues increased $1.3 million, or 19%, to $8.5 million from $7.2 million. Data segment service revenues, which are derived solely from MDC, increased primarily as the result of volume increases in intellectual property management services due to increased sales of existing services to new customers, in addition to increased average pricing.

Total segment cost of sales increased $0.8 million, or 10%, to $9.2 million from $8.3 million. Total segment gross profit margins increased to 71.0% in the first six months of 2004, from 70.5% for the corresponding period in 2003. Gross product profit margins increased to 74.6% from 73.0%, while gross service profit margins decreased to 61.2% from 63.0%.   The increase in gross product profit margins is due primarily to higher gross profits at MicroPatent resulting from increased web based transactions which have relatively fixed costs, while the decrease in gross service profit margins is attributable to the increased production and customer service-related compensation expense at MDC. The Company expects gross service profits at MDC to improve during the last half of 2004 as a result of projected increases in revenues and relatively stable costs.

Income from operations increased $1.7 million, or 24%, to $8.7 million from $7.0 million. Income from operations increased due primarily to the revenue increases noted above, partially offset by: increased compensation in information technology-related areas at MicroPatent; the impact of foreign exchange fluctuations on amortization of intangible assets at IDRAC; and an increase in compensation for management, production and customer service-related employees at MDC, based on volume growth.

During the first six months of 2004, MicroPatent recorded a gain of $0.4 million, net of associated deal costs of $0.2 million, related to the sale of patents.

EBITDA increased $2.5 million, or 22%, to $13.6 million from $11.2 million. EBITDA margins approximated 43% in the first six months of 2004, compared to 40% in the first six months of 2003. The most significant factors in the increase were the growth in segment revenues, partially offset by increased compensation expense.

Software

Revenues increased $4.9 million, or 44%, to $16.1 million from $11.2 million. All revenues in the segment relate to Liquent. During the first six months of 2004, Liquent derived approximately 68.4% of its revenues from service revenues and approximately 31.6% from product sales. Service revenues increased $2.7 million, or 32%, to $11.0 million from $8.3 million. The increase is mainly attributable to increased volume in maintenance revenues as a result of the acquisition of CDC, coupled with volume growth related to sales of core software products to existing customers of Liquent and CDC. Product revenues increased $2.2 million, or 77%, to $5.1 million from $2.9 million, due primarily to revenues associated with the acquisition of CDC. Software product revenues for the first six months of 2004 were below expected levels due to delayed license deals. A significant number of transactions expected to be closed in the second quarter of 2004 remain in the sales pipeline for completion in the second half of 2004. In addition, the Company expects to generate increased license sales from its new InSight product line during the last half of 2004.

Total segment cost of sales decreased $0.1 million, or 3%, to $4.3 million from $4.4 million. Total segment gross margins increased 73.4% in the first six months of 2004, from 60.4% for the corresponding period in 2003. Gross service margins increased to 66.1% from 51.5%, while gross product margins increased to 89.2% from 86.3%. Total software segment gross margins increased primarily as a result of cost reduction initiatives and efficiencies resulting from the successful integration of the Company s Liquent and CDC business units.

Income (loss) from operations in this segment increased $1.9 million to $1.0 million from $(0.9) million. Income from operations increased at Liquent due primarily to the revenue increases resulting from the December 2003 acquisition of CDC, partially offset by: a full six months of costs associated with CDC in 2004; the impact of below expected overall software revenues due to delayed license deals; and the impact of additional amortization of CDC intangible assets.

EBITDA in this segment increased $2.3 million to $2.7 million from $0.4 million. EBITDA margins approximated 16% in the first six months of 2004, compared to 3% in the first six months of 2003. The most significant factors in the increase were increased revenues and cost efficiencies resulting from the integration of CDC.

Other

Losses from other operations decreased by $0.4 million, to $2.5 million in the first six months of 2004 from $2.9 million in the first six months of 2003. Losses from other operations decreased primarily as a result of decreased patent licensing activities in the Company s LPS unit.

During the first six months of 2004, the Company recorded $0.6 million of non-operating expenses directly related to legal and accounting services associated with the recently announced merger with Thomson. During the first six months of 2003, the Company charged approximately $0.6 million to non-operating expenses associated with the early termination of a credit agreement. The early termination costs included approximately $0.5 million for the write-off of unamortized fees, representing a non-cash charge.

A reconciliation of segment EBITDA to income (loss) from continuing operations before income taxes follows:

(In thousands)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Data segment				
EBITDA	$ 6,869	$ 5,609	$ 13,648	$ 11,160
Amortization of capitalized software		(4)	(1)	(9)
Depreciation and amortization	(2,273)	(2,090)	(4,560)	(4,176)
Interest income, net	48	66	90	119
Income from continuing operations before income taxes	$ 4,644	$ 3,581	$ 9,177	$ 7,094
Software segment				
EBITDA	$ 565	$ 42	$ 2,652	$ 383
Amortization of capitalized software	(75)	(45)	(149)	(76)
Depreciation and amortization	(724)	(546)	(1,468)	(1,149)
Interest income (expense), net	1	(3)	6	(7)
(Loss) income from continuing operations before income taxes	$ (233)	$ (552)		