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ARISTOTLE CORP  
Form 10-Q  
February 14, 2002

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

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2001

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-14669

THE ARISTOTLE CORPORATION  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

27 ELM STREET, NEW HAVEN, CONNECTICUT  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

06-1165854  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

06510  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:  
(203) 867-4090

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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

As of February 10, 2002, 1,931,581 shares of Common Stock, \$.01 par value per share, were outstanding.

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THE ARISTOTLE CORPORATION

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QUARTER ENDED DECEMBER 31, 2001

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THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT FOR SHARE DATA)

ASSETS  
-----

Current assets:

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Cash and cash equivalents .....  
Marketable securities .....  
Accounts receivable, net .....  
Inventories.....  
Other current assets .....

Total current assets .....

Property, plant and equipment, net .....

Other assets:

Goodwill .....  
Other noncurrent assets .....

LIABILITIES AND STOCKHOLDERS' EQUITY  
-----

Current liabilities:

Current maturities of long term debt .....  
Accounts payable .....  
Accrued expenses .....  
Deferred revenue .....  
Accrued tax reserves .....

Total current liabilities .....

Long term debt, net of current maturities .....

Stockholders' equity:

Common stock, \$.01 par value, 3,000,000 shares authorized, 1,944,569  
shares issued .....  
Additional paid-in capital .....  
Accumulated deficit .....  
Treasury stock, at cost, 12,988 shares .....  
Foreign currency translation .....  
Net unrealized investment losses .....

Total stockholders' equity .....

The accompanying notes are an integral part of these condensed consolidated financial statements.

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(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

|   | THREE MONTHS ENDED<br>DECEMBER 31, |              |
|---|------------------------------------|--------------|
|   | 2001<br>----                       | 2000<br>---- |
| Net revenue .....   | \$ 2,498                           | \$ 1,982     |
| Cost of goods sold .....                                  | 1,253                              | 997          |
|   | -----                              | -----        |
| Gross profit .....  | 1,245                              | 985          |
|   | -----                              | -----        |
| Selling expenses .....                                    | 240                                | 279          |
| Product development .....                                 | 110                                | 147          |
| General and administrative expenses .....                 | 590                                | 390          |
| Goodwill amortization .....                               | --                                 | 121          |
|   | -----                              | -----        |
| Operating income .....                                    | 305                                | 48           |
|   | -----                              | -----        |
| Other income (expense):                                   |                                    |              |
| Investment and interest income .....                      | 39                                 | 93           |
| Interest expense .....                                    | (12)                               | (33)         |
| Equity loss in on-line university .....                   | (8)                                | --           |
|   | -----                              | -----        |
| Income from continuing operations before income taxes.... | 324                                | 108          |
| Provision for income taxes .....                          | (7)                                | (5)          |
|   | -----                              | -----        |
| Income from continuing operations .....                   | 317                                | 103          |
| Minority interest .....                                   | --                                 | 19           |
|   | -----                              | -----        |
| Net income .....  | \$ 317                             | \$ 122       |
|   | =====                              | =====        |
| Basic earnings per common share .....                     | \$ .17                             | \$ .06       |
|   | =====                              | =====        |
| Diluted earnings per common share .....                   | \$ .16                             | \$ .06       |
|   | =====                              | =====        |
| Weighted average shares outstanding:                      |                                    |              |
| Basic shares .....  | 1,896,837                          | 1,886,922    |
| Diluted shares .....                                      | 1,928,682                          | 1,920,789    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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THE ARISTOTLE CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (DOLLARS IN THOUSANDS)

|   | SIX MO<br>DECE<br>-----<br>2001<br>----- |
|---|--|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |  |
| Net income .....  | \$ 606                                   |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |
| Goodwill amortization .....   | --                                       |
| Depreciation and amortization .....   | 157                                      |
| Minority interest .....   | --                                       |
| Non-cash deferred compensation .....  | (6)                                      |
| Equity loss in on-line university .....   | 13                                       |
| Changes in assets and liabilities:  |  |
| Accounts receivable .....   | (65)                                     |
| Inventories .....   | 6  |
| Other assets .....  | (38)                                     |
| Accounts payable .....  | 157                                      |
| Accrued expenses .....  | 37                                       |
| Deferred revenue .....  | 26                                       |
| Net cash provided by operating activities .....                                   | -----<br>893<br>-----                    |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |  |
| Purchase of Safe Passage, net of \$20 of cash acquired .....                      | --                                       |
| Investment in on-line university .....  | (25)                                     |
| Transaction costs related to the proposed Nasco merger .....                      | (490)                                    |
| Purchase of property and equipment .....  | (155)                                    |
| Net cash used in investing activities .....                                       | -----<br>(670)<br>-----                  |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |  |
| Repayment of revolving loan .....   | --                                       |
| Principal debt payments .....   | (112)                                    |
| Repayment of capital lease obligations .....                                      | (15)                                     |
| Issuance of new shares of common stock .....                                      | 143                                      |
| Net cash provided by (used in) financing activities .....                         | -----<br>16<br>-----                     |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS .....                            | 239                                      |
| CASH AND CASH EQUIVALENTS, beginning of period .....                              | 4,149                                    |
| CASH AND CASH EQUIVALENTS, end of period .....                                    | -----<br>\$ 4,388<br>=====               |

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The accompanying notes are an integral part of these condensed consolidated financial statements.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001  
(UNAUDITED)

1. Nature of Operations and Basis of Presentation  
-----

The Aristotle Corporation ("Aristotle" or the "Company") is a holding company which, through its subsidiaries, Simulaids, Inc. ("Simulaids") and Safe Passage International, Inc. ("Safe Passage"), currently conducts business in two segments, the medical education and training products market and the computer-based training market. Simulaids' primary products include manikins and simulation kits used for training in CPR, emergency rescue and patient care fields. Simulaids' products are sold throughout the United States and internationally via distributors and catalogs to end users such as fire and emergency medical departments and nursing and medical schools. Safe Passage develops and licenses computer-based training products to government and industry clients.

On September 14, 2000, Aristotle acquired 80% of the outstanding shares of common stock (the "Acquisition") of Safe Passage, a privately-held Rochester, New York-based company, pursuant to a Stock Purchase Agreement dated as of September 13, 2000 between Aristotle and the Safe Passage shareholders (the "Sellers"). In consideration for such shares, the Company paid an aggregate purchase price of \$1.625 million in cash to the Sellers. In addition, the Company has incurred approximately \$318,000 of transaction and other related costs associated with the Acquisition.

The Acquisition was accounted for using the purchase method of accounting and, accordingly, the purchase price was allocated to the assets and liabilities acquired based on their fair market values at the date of the Acquisition. The excess cost over the fair value of net assets acquired, which amounted to approximately \$1.8 million, is reflected as goodwill.

Operating results for the six months ended December 31, 2001 and 2000, on a pro forma basis as though Safe Passage was acquired as of the first day of each period are as follows (dollars in thousands except share data):

Six Months Ended December 31  
-----

|  | 2001<br>----<br>(unaudited) | 2000<br>----<br>(unaudited) |
|--|-----------------------------|-----------------------------|
| Net revenue.....                       | \$4,866                     | \$4,497                     |
| Net income.....                        | 606                         | 536                         |
| Basic earnings per common share.....   | .32                         | .28                         |
| Diluted earnings per common share..... | .31                         | .28                         |

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that

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would have occurred had the Acquisition been consummated as of the above dates, nor are they necessarily indicative of the future operating results. The pro forma adjustments include amortization of intangibles, decreased interest income and state income taxes on the income of Safe Passage.

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On November 28, 2001, Aristotle announced it had signed an agreement to merge with Nasco International, Inc. (Nasco), an indirect subsidiary of the privately held Geneve Corporation. Aristotle will be the surviving corporation and will continue to be a publicly held company listed on the Nasdaq SmallCap Market. Because Geneve will own a significant majority of the outstanding shares of Aristotle common stock upon completion of the merger, the merger will be accounted for as a reverse acquisition of entities under common control. Accordingly, for accounting purposes, Aristotle will be treated as the acquired company and Nasco will be considered to be the acquiring company and, therefore, the purchase price, as defined, will be allocated to the assets and liabilities of Aristotle as acquired by NASCO based on their fair market value at the date of the merger.

The merger is subject to approval, at a meeting of Aristotle's stockholders, by a two-thirds affirmative vote of Aristotle's outstanding common shares, and also by a majority of shares voted, excluding those held by Geneve. Other conditions to closing are contained in the Agreement and Plan of Merger filed with the Securities and Exchange Commission on November 30, 2001 as an exhibit to its Current Report on Form 8-K reporting the merger.

The Company calculates earnings per share in accordance with the provisions of SFAS No. 128 "Earnings Per Share." Options to purchase 27,769 and 30,164 of common stock were not included in the computations of earnings per share for the periods ended December 31, 2001 and 2000, respectively, because the option exercise prices were greater than the average market price of the common stock.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended December 31, 2001 are not necessarily indicative of results that may be expected for the year ending June 30, 2002. For further information, refer to the consolidated financial statements and notes included in Aristotle's Annual Report on Form 10-K for the year ended June 30, 2001.

### 2. NEW ACCOUNTING PRONOUNCEMENTS

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As of July 1, 2001, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS No 142"). Under SFAS No. 142, goodwill is no longer subject to amortization over its estimated useful life. Instead, SFAS No. 142 requires that goodwill be evaluated at least annually for impairment by applying a fair-value-based test and, if impairment occurs, the amount of impaired goodwill must be written off immediately. Accordingly, the Company no longer records amortization of goodwill. For the three months and six months ended December 31, 2000, the Company recorded \$121 and \$189 of goodwill amortization, respectively. The Company has determined that no impairment of goodwill exists as of December 31, 2001. The performance of Safe Passage has been negatively impacted by delays in the awarding of certain contracts by a primary customer, the Federal Aviation

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Administration ("FAA"). The timing and amount, if any, of FAA or the newly formed Transportation Security Administration ("TSA") contract awards to Safe Passage, anticipated to be awarded during the next few months, will be a significant consideration in assessing any future potential Safe Passage goodwill impairment during fiscal 2002.

A reconciliation of reported net income to adjusted net income before amortization of goodwill is as follows (dollars in thousands, except per share data):

|                               | THREE MONTHS ENDED<br>DECEMBER 31, |               |
|-------------------------------|------------------------------------|---------------|
|                               | 2001<br>-----                      | 2000<br>----- |
| Net income as reported.....   | \$ 317                             | \$ 122        |
| Amortization of goodwill..... | -                                  | 121           |
|                               | -----                              | -----         |
| Adjusted net income.....      | \$ 317                             | \$ 243        |
|                               | =====                              | =====         |

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|                                    |        |        |
|------------------------------------|--------|--------|
| Basic earnings per common share:   |        |        |
| Net income as reported.....        | \$ .17 | \$ .06 |
|                                    | -----  | -----  |
| Amortization of goodwill.....      | -      | .07    |
|                                    | -----  | -----  |
| Adjusted net income.....           | \$ .17 | \$ .13 |
|                                    | =====  | =====  |
| Diluted earnings per common share: |        |        |
| Net income as reported.....        | \$ .16 | \$ .06 |
|                                    | -----  | -----  |
| Amortization of goodwill.....      | -      | .07    |
|                                    | -----  | -----  |
| Adjusted net income.....           | \$ .16 | \$ .13 |
|                                    | =====  | =====  |

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 modifies the rules for accounting for the impairment or disposal of long-lived assets. The new rules become effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The Company has not yet quantified the impact of implementing SFAS No. 144 on the Company's consolidated financial statements.

3. Debt Agreement  
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On September 27, 1999, Simulaids and Citizens Bank of Connecticut



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("Citizens") entered into a \$2.0 million credit agreement. The credit agreement is currently comprised of two facilities ("Credit Facilities") (dollars in thousands):

- (a) \$1,200 SEVEN-YEAR TERM LOAN - Principal payments are scheduled on a seven-year straight-line amortization. The interest rate is charged at the rate of LIBOR plus 200 basis points on a 30, 60, 90 or 180 day LIBOR rate at Simulaids' election.
- (b) \$800 SEVEN-YEAR MORTGAGE - Principal payments are scheduled on a fifteen-year straight-line amortization, with a balloon payment at the seven-year maturity. The interest rate is charged at the rate of LIBOR plus 200 basis points on a 30, 60, 90 or 180 day LIBOR rate at Simulaids' election.

As of December 31, 2001, the balance outstanding on the mortgage was \$675 and there was no balance outstanding on the term loan. Future principal payments on the mortgage are \$5 per month until September 2006, at which time the remaining balance will be due.

4. Comprehensive Income  
-----

The Company reports comprehensive income in accordance with SFAS No. 130 in which the Company discloses changes in equity that result from transactions and economic events from non-owner sources. Comprehensive income for the three and six months ended December 31, 2001 and 2000 is as follows:

|  | (IN T              |       |
|--|--------------------|-------|
|  | THREE MONTHS ENDED |       |
|  | DECEMBER 31,       |       |
|  | -----              |       |
|  | 2001               | 20    |
|  | ----               | --    |
| Net income.....                              | \$ 317             | \$    |
| Foreign currency translation adjustment..... | 3                  |       |
| 8  |                    |       |
| Net unrealized investment gain (loss).....   | (25)               |       |
| Comprehensive income.....                    | \$ 295             | \$    |
|  | =====              | ===== |

5. Segment Reporting  
-----

The Company has two reportable segments: the medical education and training products segment and the computer based training segment. The medical education and training products segment produces manikins and simulation kits used for training in CPR, emergency rescue and patient care fields. The computer-based training segment develops and sells computer-based training products to government and industry clients.

The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Each of the businesses was acquired as a unit, and the management at the time of the acquisition was retained. The results of each segment for the three and six months ended December 31, 2001 and 2000 are as follows:

|   | THREE MONTHS ENDED<br>DECEMBER 31,<br>----- |              |
|---|---|--------------|
|   | 2001<br>----                                | 2000<br>---- |
| Net revenue:                                |   |              |
| Medical education & training products ..... | \$ 2,423                                    | \$ 1,796     |
| Computer based training .....               | 75  | 186          |
|   | -----                                       | -----        |
| Net revenue .....                           | \$ 2,498                                    | \$ 1,982     |
|   | =====                                       | =====        |
| Operating income (loss):                    |   |              |
| Medical education & training products ..... | \$ 699                                      | \$ 374       |
| Computer based training .....               | (195)                                       | (225)        |
| Corporate .....                             | (199)                                       | (101)        |
|   | -----                                       | -----        |
| Operating income .....                      | \$ 305                                      | \$ 48        |
|   | =====                                       | =====        |
| Net Income (loss):                          |   |              |
| Medical education & training products ..... | \$ 414                                      | \$ 196       |
| Computer based training .....               | (196)                                       | (198)        |
| Corporate .....                             | 99  | 124          |
|   | -----                                       | -----        |
| Net income .....                            | \$ 317                                      | \$ 122       |
|   | =====                                       | =====        |

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|  | DECEMBER 31,<br>2001<br>---- | JUNE 30,<br>2001<br>---- |
|--|------------------------------|--------------------------|
| Identifiable assets:                       |                              |                          |
| Medical education & training products..... | \$ 8,902                     | \$ 8,388                 |
| Computer based training.....               | 1,771                        | 1,887                    |
| Corporate.....                             | 5,067                        | 4,633                    |
|  | -----                        | -----                    |
| Identifiable assets.....                   | \$15,740<br>=====            | \$14,908<br>=====        |

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

GENERAL

This discussion and analysis of financial condition and results of operations reviews the results of operations of the Company, on a consolidated basis, for the three and six months ended December 31, 2001, as compared to the three and six months ended December 31, 2000. This discussion and analysis of financial condition and results of operations have been derived from, and should be read in conjunction with, the unaudited Consolidated Financial Statements and Notes to Consolidated Financial Statements contained elsewhere in this report.

RESULTS OF OPERATIONS OF THE COMPANY

THREE MONTHS ENDED DECEMBER 31, 2001 AS COMPARED TO THE THREE MONTHS ENDED DECEMBER 31, 2000.

Net revenue for the three months ended December 31, 2001 increased 26.0% to \$2,498 compared to net revenue of \$1,982 for the same period in the prior year. The increase in revenue principally reflects revenue growth at Simulaids of \$627, which experienced increases through both its domestic and export distributors and increased revenue across most major product categories. The Simulaids increase was partially offset by decreased revenue of \$111 at Safe Passage that reflected the downturn in the economy and in the technology sector in particular.

Gross profit for the three months ended December 31, 2001 increased 26.4% to \$1,245 from \$985 for the same period in the prior year and the gross margin percentage increased to 49.8% from 49.7%. The increase in gross profit reflected higher sales and improved plant efficiency for Simulaids, which generated \$384 of increased gross profit, partially offset by a \$124 decrease for Safe Passage due mainly to the decline in net revenue.

Selling expense for the three months ended December 31, 2001 decreased 14.0% to \$240 from \$279 for the same period in the prior year. The decrease mainly reflected reductions in staffing levels at Safe Passage partially offset by increased commission expenses paid by Simulaids to an affiliate for sales to international customers.

Product development expenses for the three months ended December 31, 2001 decreased 25.2% to \$110 from \$147 for the three months ended December 31,

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2000. The decrease principally reflected lower staffing levels at Safe Passage partially offset by increased staffing at Simulaids.

The Company's general and administrative expenses for the three months ended December 31, 2001 increased 51.3% to \$590 compared to \$390 for the comparable 2000 fiscal quarter. The increase was primarily due to increased professional fees and higher staffing costs at Aristotle.

There was no goodwill amortization for the current fiscal quarter versus \$121 of goodwill amortization in the prior year's quarter. Effective July 1, 2001, the Company adopted SFAS No 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Instead, SFAS 142 requires that goodwill be evaluated at least annually for impairment by applying a fair value based test and, if impairment occurs, the amount of impaired goodwill must be written off immediately. The Company has determined that no impairment of goodwill exists as of December 31, 2001. The performance of Safe Passage has been negatively impacted by delays in the awarding of certain contracts by a primary customer, the Federal Aviation Administration ("FAA"). The timing and amount, if any, of FAA or the Transportation Security Administration contract awards to Safe Passage, anticipated to be awarded during the next few months, will be a significant consideration in assessing any future potential Safe Passage goodwill impairment during fiscal 2002.

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Investment and interest income was \$39 and \$93 for the three months ended December 31, 2001 and 2000, respectively. The decrease in 2001 mainly reflects lower returns on investment balances.

Interest expense for the three months ended December 31, 2001 decreased to \$12 from \$33 in the corresponding three months ended December 31, 2000. The decrease primarily reflected lower debt levels due to principal payments made during the prior twelve months.

The income tax provision for the three months ended December 31, 2001 was \$7 compared to \$5 for the three months ended December 31, 2000. The tax provision primarily represents state taxes as federal income taxes are offset by the utilization of net operating loss carryforwards.

SIX MONTHS ENDED DECEMBER 31, 2001 AS COMPARED TO THE SIX MONTHS ENDED DECEMBER 31, 2000.

Net revenue for the six months ended December 31, 2001 increased 27.7% to \$4,866 compared to net revenue of \$3,810 for the same period in the prior year. The increase in revenue principally reflects revenue growth at Simulaids of \$1,066, which experienced increases through both its domestic and export distributors and increased revenue across most major product categories.

Gross profit for the six months ended December 31, 2001 increased 32.7% to \$2,407 from \$1,814 for the same period in the prior year and the gross margin percentage increased to 49.5% from 47.6%. The increase in gross profit mainly reflected higher sales and the gross margin increase principally reflected improved manufacturing efficiency for Simulaids.

Selling expense for the six months ended December 31, 2001 increased 19.9% to \$470 from \$392 for the same period in the prior year. The increase mainly reflected higher commission expenses paid by Simulaids to an affiliate for sales to international customers, catalog costs, and travel expenses partially offset by reductions in staffing levels at Safe Passage.

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Product development expenses for the six months ended December 31, 2001 increased 95.7% to \$315 from \$161 for the six months ended December 31, 2000. The increase principally reflected the inclusion of a full six month's impact of Safe Passage and higher staffing levels at Simulaids.

The Company's general and administrative expenses for the six months ended December 31, 2001 increased 21.9% to \$1,056 compared to \$866 for the comparable period in 2000. The increase was primarily due to the inclusion of a full six month's impact of Safe Passage, increased professional fees and higher staffing costs at Aristotle partially offset by lower shareholder expenses.

There was no goodwill amortization for the six months ended December 31, 2001 compared to \$189 for the comparable period in the prior year. Effective July 1, 2001, the Company adopted SFAS No 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill is no longer subject to amortization over its estimated useful life. Instead, SFAS 142 requires that goodwill be evaluated at least annually for impairment by applying a fair value based test and, if impairment occurs, the amount of impaired goodwill must be written off immediately. The Company has determined that no impairment of goodwill exists as of December 31, 2001. The performance of Safe Passage has been negatively impacted by delays in the awarding of certain contracts by a primary customer, the Federal Aviation Administration ("FAA"). The timing and amount, if any, of FAA contract awards to Safe Passage, anticipated to be awarded during the next few months, will be a significant consideration in assessing any future potential Safe Passage goodwill impairment during fiscal 2002.

Investment and interest income was \$92 and \$201 for the six months ended December 31, 2001 and 2000, respectively. The decrease in 2001 mainly reflects lower returns on investment balances.

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Interest expense for the six months ended December 31, 2001 decreased to \$25 from \$71 in the corresponding six months ended December 31, 2000. The decrease primarily reflected lower debt levels due to principal payments made during the prior twelve months.

The income tax provision for the six months ended December 31, 2001 was \$14 compared to \$22 for the six months ended December 31, 2000. The tax provision primarily represents state taxes as federal income taxes are offset by the utilization of net operating loss carryforwards.

### LIQUIDITY AND CAPITAL RESOURCES

Aristotle ended the December 31, 2001 quarter with \$4,388 in cash and cash equivalents versus cash and cash equivalents of \$4,149 at June 30, 2001. The increase in cash for the six months ended December 31, 2001 was principally generated by operating activities of \$893 partially offset by cash used for transaction costs of \$490 related to the proposed merger with Nasco and capital expenditures of \$155. The overall increase in cash and cash equivalents of \$239 is detailed below.

The Company generated cash from operations of \$893 during the six months ended December 31, 2001 and \$916 from operations during the six months ended December 31, 2000. During the six months ended December 31, 2001, the generation of cash from operations was principally the result of net income before depreciation and amortization of \$763 and the increase of accounts payable of \$157. During the six months ended December 31, 2000, the generation of cash from operations was principally the result of net income before depreciation and amortization of \$637 and the reduction of accounts receivable

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of \$295.

The Company used cash for investing activities of \$670 during the six months ended December 31, 2001 and \$1,895 during the six months ended December 31, 2000. During the six months ended December 31, 2001, the utilization of cash was principally for transaction costs of \$490 related to the proposed merger with Nasco and capital expenditures of \$155. During the six months ended December 31, 2000, the utilization of cash was principally due to the acquisition of Safe Passage of \$1,746, capital expenditures of \$121 and initial expenditures for the development of an on-line university with Quinnipiac University.

The Company generated cash of \$16 from financing activities during the six months ended December 31, 2001 and used cash of \$543 in financing activities during the six months ended December 31, 2000. During the six months ended December 31, 2001, the generation of cash was mainly from the sale of common shares to Geneve of \$143 partially offset by the reduction of debt by \$127. Funds utilized in the six months ended December 31, 2000 reflected the reduction of debt by \$543.

Capital resources in the future are expected to be used for the development of the Simulaids and Safe Passage businesses, for additional costs anticipated for the proposed merger with Nasco and to pursue additional acquisitions. Aristotle anticipates that there will be sufficient financial resources to meet Aristotle's projected working capital and other cash requirements for at least the next twelve months.

ITEM 3. QUANTITATIVE & QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described below, credit risk and interest rate risk are the primary sources of market risk to the Company in its marketable securities and short-term borrowings.

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QUALITATIVE

Interest Rate Risk: Changes in interest rates can potentially impact the Company's profitability and its ability to realize assets and satisfy liabilities. Interest rate risk is resident primarily in the Company's marketable securities and short-term borrowings, which have fixed coupon or interest rates.

Credit Risk: The Company's marketable securities are invested in investment grade corporate bonds and closed-end bond funds, both domestic and international, which have various maturities.

QUANTITATIVE

The Company's marketable securities and long-term borrowings as of December 31, 2001 are as follows:

|                         | Maturity less<br>than one year<br>----- | Maturity greater<br>than one year<br>----- |
|-------------------------|---|--|
| Marketable securities   |   |  |
| Cost value              | \$ --                                   | \$ 900                                     |
| Weighted average return | --                                      | 6.7%                                       |
| Fair market value       | \$ --                                   | \$ 794                                     |

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|                                |    |      |        |
|--------------------------------|----|------|--------|
| Long-term borrowings           |    |      |        |
| Amount                         | \$ | 85   | \$ 659 |
| Weighted average interest rate |    | 5.5% | 5.5%   |
| Fair market value              | \$ | 85   | \$ 659 |

### RECENT DEVELOPMENTS

On November 28, 2001, Aristotle announced it had signed an agreement to merge with Nasco International, Inc. (Nasco), an indirect subsidiary of the privately held Geneve Corporation. Aristotle will be the surviving corporation and will continue to be a publicly held company listed on the Nasdaq SmallCap Market. Because Geneve will own a significant majority of the outstanding shares of Aristotle common stock upon completion of the merger, the merger will be accounted for as a reverse acquisition of entities under common control. Accordingly, for accounting purposes, Aristotle will be treated as the acquired company and Nasco will be considered to be the acquiring company.

The merger is subject to approval, at a meeting of Aristotle's stockholders, by a two-thirds affirmative vote of Aristotle's outstanding common shares, and also by a majority of shares voted, excluding those held by Geneve. Other conditions to closing are contained in the Agreement and Plan of Merger filed with the Securities and Exchange Commission on November 30, 2001 as an exhibit to its Current Report on Form 8-K reporting the merger.

### CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

Aristotle believes that this report may contain forward-looking statements within the meaning of the "safe-harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements regarding Aristotle's liquidity and are based on management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Aristotle cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors including, but not limited to, the following: (i) the ability of Aristotle to obtain financing and

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additional capital to fund its business strategy on acceptable terms, if at all; (ii) the ability of Aristotle on a timely basis to find, prudently negotiate and consummate one or more additional acquisitions; (iii) the ability of Aristotle to retain and take advantage of its net operating tax loss carryforward position; (iv) Aristotle's ability to manage Simulaids, Safe Passage and any other acquired or to be acquired companies; and (v) general economic conditions. As a result, the Company's future development efforts and operations involve a high degree of risk. For further information, refer to the more specific risks and uncertainties discussed in our Annual Report on Form 10-K.

### PART II - OTHER INFORMATION

#### ITEM 1 - LEGAL PROCEEDINGS.

The Registrant is not a party to any material legal proceedings. See the following sections of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001: "Management's Discussion and Analysis of Financial

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Conditions and Result of Operations - Income Taxes" and Note 7 - "Income Taxes" to the Consolidated Financial Statements with regard to Registrant's claims for tax refunds with the Internal Revenue Service.

ITEM 2 - CHANGES IN SECURITIES.

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDER.

None

ITEM 5 - OTHER INFORMATION.

None

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

- (a) Exhibits - None. See Exhibit Index attached to this Report.
- (b) Reports on Form 8-K. On November 30, 2001, we filed a Current Report on Form 8-K under Item 5 regarding the proposed merger with Nasco International, Inc.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED.

THE ARISTOTLE CORPORATION

/s/ John J. Crawford

-----  
John J. Crawford  
ITS PRESIDENT, CHIEF EXECUTIVE OFFICER AND  
CHAIRMAN OF THE BOARD  
Date: February 13, 2002

/s/ Paul McDonald

-----  
Paul McDonald  
ITS CHIEF FINANCIAL OFFICER AND SECRETARY  
(PRINCIPAL FINANCIAL AND CHIEF ACCOUNTING OFFICER)



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Date: February 13, 2002

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EXHIBIT INDEX

| Exhibit<br>Number<br>----- | Description<br>-----  |
|----------------------------|---|
|                            | Exhibit 2.1--Capital Contribution Agreement dated as of November 19, 1993 by and among The Aristotle Corporation, Aristotle Sub, Inc., The Strouse, Adler Company and the Stockholders of Strouse, incorporated herein by reference to Exhibit 2.1 of The Aristotle Corporation Current Report on Form 8-K dated April 14, 1994, as amended (the "1994 Current Report").  |
|                            | Exhibit 2.2--Agreement and Plan of Reorganization, dated as of September 13, 2000 (closed on September 14, 2000), by and among the Registrant, Aristotle Acquisition Sub, Inc., Safe Passage International, Inc., James S. Viscardi, Michael R. Rooksby, Howard C. Rooksby and Andrew M. Figiel, incorporated herein by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K dated September 27, 2000. |
|                            | Exhibit 2.3--Agreement and Plan of Merger, dated as of September 13, 2000 (closed on September 14, 2000), by and between Aristotle Acquisition Sub, Inc. and Safe Passage International, Inc., incorporated herein by reference to Exhibit 2.2 of the Registrant's Current Report on Form 8-K dated September 27, 2000.   |
|                            | EXHIBIT 2.4--Agreement and Plan of Merger, dated as of November 27, 2001, among The Aristotle Corporation, Geneve Corporation, Nasco Holdings, Inc. and Nasco International, Inc. incorporated herein by reference to Exhibit 2 of The Aristotle Corporation Current Report on Form 8-K dated November 30, 2001.  |
|                            | Exhibit 3.1--Restated Certificate of Incorporation of The Aristotle Corporation, incorporated herein by reference to Exhibit 3.1 of The Aristotle Corporation Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997.  |
|                            | Exhibit 3.2--Amended and Restated Bylaws, incorporated herein by reference to Exhibit 3.2 of The Aristotle Corporation Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 1997.   |
|                            | Exhibit 4.1--Restated Certificate of Incorporation of The Aristotle Corporation and Amended and Restated Bylaws filed as Exhibits 3.1 and 3.2 are incorporated into this item by reference. See Exhibit 3.1 and Exhibit 3.2 above.  |
|                            | Exhibit 4.2--Registration Rights Agreement dated as of April 11, 1994 between the Registrant and the shareholders listed on Exhibit A thereto, incorporated by reference to an exhibit to the Registrant's Registration Statement on Form S-3 (File No. 333-4185).  |

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Exhibit 4.3--Preferred Stock Purchase Agreement dated as of October 22, 1997 between The Aristotle Corporation and Geneve Corporation, incorporated herein by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for fiscal quarter ended September 30, 1997.

Exhibit 4.4--Registration Rights Agreement dated as of October 22, 1997 between The Aristotle Corporation and Geneve Corporation, incorporated herein by reference to Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1997.

Exhibit 4.5--Letter Agreement dated as of September 15, 1997 among The Aristotle Corporation, Aristotle Sub, Inc. and certain stockholders, incorporated herein by reference to Exhibit 10.7 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1997.

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Exhibit 4.6--Letter Agreement dated as of February 9, 2000 between The Aristotle Corporation and the Geneve Corporation regarding certain limitations on voting and the acquisition of additional shares of common stock, incorporated herein by reference to the Registrant's Report on Form 13D/A dated February 15, 2000.

Exhibit 4.7--Letter Agreement dated as of April 28, 2000 between The Aristotle Corporation and the Geneve Corporation, modifying the letter agreement between such parties dated as of February 9, 2000, regarding certain limitations on voting and the acquisition of additional shares of common stock, incorporated herein by reference to the Registrant's Report on Form 8-K dated May 2, 2000.

Exhibit 10.1--Stock Option Plan of The Aristotle Corporation, as amended, incorporated herein by reference to Exhibit 10.2 of The Aristotle Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 1992 (the "1992 Form 10-K").

Exhibit 10.2--Form of Stock Option Agreement (for non-employee directors), incorporated herein by reference to Exhibit 10.3 of the 1992 Form 10-K.

Exhibit 10.3--Form of Incentive Stock Option Agreement (for employees), incorporated herein by reference to Exhibit 10.4 of the 1992 Form 10-K.

Exhibit 10.4--Settlement and Release Agreement dated as of May 29, 1996 among The Aristotle Corporation, the Federal Deposit Insurance Corporation and certain other interested parties, incorporated herein by reference to Exhibit 10.22 of The Aristotle Corporation Annual Report on Form 10-K for the fiscal year ended June 30, 1996.

Exhibit 10.5--Stipulation and Agreement of Settlement dated as of May 28, 1996 regarding In Re First Constitution Stockholders Litigation, incorporated herein by reference to Exhibit 10.23 of The Aristotle Corporation Annual Report on Form 10-K for the fiscal year ended June 30, 1996.

Exhibit 10.6--Stock Purchase Agreement between The Aristotle Corporation and Kevin Sweeney dated as of April 30, 1999, incorporated herein by reference to Exhibit 2.1 of The Aristotle Corporation Current Report on form 8-K dated May 4, 1999, as amended.

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Exhibit 10.7--The Aristotle Corporation 1997 Employee and Director Stock Plan, incorporated herein by reference to The Aristotle Corporation Registration Statement on Form S-8 dated December 10, 1997.

Exhibit 10.8--The Employment Agreement dated as of February 1, 2001 by and between The Aristotle Corporation and Paul McDonald, incorporated herein by reference to Exhibit 10.8 of the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001.

Exhibit 10.9--The Employment Agreement dated as of February 1, 2001 by and between The Aristotle Corporation and John Crawford, incorporated herein by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2001.

Exhibit 10.10--Exchange Agreement, dated as of November 27, 2001, between The Aristotle Corporation and Geneve Corporation, incorporated herein by reference to Exhibit 10 of The Aristotle Corporation Current Report on Form 8-K dated November 30, 2001.