ARISTOTLE CORP
Form 10-Q
May 15, 2002

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

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

[ ] 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

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 [X] No

As of May 10, 2002, 1,936,581 shares of Common Stock, $.01 par value per share, were outstanding.

THE ARISTOTLE CORPORATION

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THE ARISTOTLE CORPORATION AND SUBSIDIARIES

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

ASSETS

Current assets:
Cash and cash equivalents ....
Marketable securities ....
Accounts receivable, net ....

Other receivables ....
Inventories ....
Other current assets ....

Total current assets ....

Property, plant and equipment, net ....

Other assets:
Goodwill ....
Deferred transaction costs ....
Other noncurrent assets ....

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
Current maturities of long term debt ....
Accounts payable ....
Accrued expenses ....
Taxes and interest payable ....
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 and 1,904,613
shares issued as of March 2002 and June 2001, respectively ....
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 finanical statements.

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
Net revenue	$ 2,583	$ 2,184
Cost of goods sold	1,284	1,138
Gross profit	1,299	1,046
Selling expenses	220	166
Product development	171	189
General and administrative expenses	353	592
Goodwill amortization	--	121
Operating income	555	(22)
Other income (expense):		
Investment and interest income	28	89
Interest expense	(340)	(25)
Equity loss in on-line university	(23)	--
Income from continuing operations before income taxes	220	42
Provision for income taxes	(190)	(24)
Income from continuing operations	30	18
Minority interest	--	--
Net income	$ 30	$ 18
Basic earnings per common share	$ .02	$ .01
Diluted earnings per common share	$ .02	$ .01
Weighted average shares outstanding:		
Basic shares	1,931,581	1,888,710
Diluted shares	1,988,870	1,913,310

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(DOLLARS IN THOUSANDS)

	NI
	20
	--
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Goodwill amortization	
Depreciation and amortization	
Minority interest	
Non-cash deferred compensation	
Equity loss in on-line university	
Changes in assets and liabilities:	
Accounts receivable	(
Other receivables	(
Inventories	(
Other assets	
Accounts payable	
Accrued expenses	
Taxes and interest payable	1,
Accrued tax reserves	(
Deferred revenue	

Net cash provided by operating activities	

CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of Safe Passage, net of $20 of cash acquired	
Investment in on-line university	
Transaction costs related to the proposed Nasco merger	(
Purchase of property and equipment	(
Redemption of marketable securities	

Net cash used in investing activities	(1,

CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of revolving loan	
Principal debt payments	(
Repayment of capital lease obligations	
Issuance of new shares of common stock	

Net cash used in financing activities	

DECREASE IN CASH AND CASH EQUIVALENTS	(
CASH AND CASH EQUIVALENTS, beginning of period	4,
CASH AND CASH EQUIVALENTS, end of period	$ 3,

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

THE ARISTOTLE CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2002
(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 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, was recorded as goodwill.

Operating results for the nine months ended March 31, 2002 and 2001, on a pro forma basis as though Safe Passage was acquired as of the first day of the periods are as follows (dollars in thousands except share data):

	Nine Months Ended March 31	
	2002	2001
	(unaudited)	(unaudited)

Net revenue................................	$7,449	$6,681
Net income.................................	636	554
Basic earnings per common share.............	.33	.29
Diluted earnings per common share...........	.33	.29

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

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.

Tax Settlement

The Company announced on April 11, 2002 that it had reached a settlement with the Internal Revenue Service ("IRS") regarding a $1.9 million refund it had received in 1997 resulting from a net operating loss carryback claim relating to its 1996 tax year (April 2002 settlement). As previously reported, the IRS had been reviewing the amount of the refund and the Company had recorded a tax reserve of $720,000 with respect to such refund. In connection with the receipt of the $1.9 million tax refund in 1997, the Company had paid a $480,000 contingency fee (Tax Contingency Fee) to a third party professional services firm who assisted the Company with the carryback claim. The Tax Contingency Fee was recognized as a general and administrative expense in fiscal 1997.

In the April 2002 Settlement, the Company has agreed to pay to the IRS approximately $910,000 of the original tax refund, plus interest of $428,000, for an aggregate settlement of $1,338,000. Offsetting such obligation is a recovery of $228,000 of the Tax Contingency Fee, per the terms of the agreement, as well as a requirement of the third party services firm to pay approximately $107,000 of the interest, for an aggregate recovery of $335,000. Accordingly, included in the accompanying March 31, 2002 balance sheet is a $1,338,000 obligation due to the IRS and a $335,000 receivable from the professional

services firm. Included in the accompanying statements of operations for the three and nine months ended June 30, 2002 is a $190,000 tax provision, a $321,000 net interest expense and a $228,000 reduction in general and administration expenses, resulting in a net income statement charge of $283,000 due to the April 2002 Settlement.

Restatement

The Company has determined that a $330,000 note issued to Geneve Corporation in fiscal 2000 should have been reflected as an additional preferred dividend rather than as a reduction of paid-in capital. Therefore, the equity sections of the accompanying 2002 and 2001 balance sheets reflect a reclassification between paid-in capital and retained earnings. Total equity remains unaffected.

Earnings Per Common Share

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 March 31, 2002 and 2001, 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

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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 nine months ended March 31, 2002 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

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 nine months ended March 31, 2001 the Company recorded $121 and $310 of goodwill amortization, respectively.

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 ("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. If Safe Passage does not receive significant business from the FAA or the TSA by June 30, 2002, management anticipates that an impairment test may indicate the need to write off all or a portion of the goodwill at its June 30, 2002 year-end.

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 MARCH 31,	
	2002	2001
Net income as reported	$ 30	$ 18
Amortization of goodwill	--	121
Adjusted net income	$ 30	$ 139
Basic earnings per common share:		
Net income as reported	$ .02	$ .01
Amortization of goodwill	--	.06
Adjusted net income	$ .02	$ .07
Diluted earnings per common share:		
Net income as reported	$ .02	$ .01
Amortization of goodwill	--	.06
Adjusted net income	$ .02	$ .07

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

On September 27, 1999, Simulaids and Citizens Bank of Connecticut ("Citizens") entered into a $2.0 million credit agreement. The Company's outstanding indebtedness under the credit agreement is currently comprised of an $800,000 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 March 31, 2002, the balance outstanding on the mortgage was $662. 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 nine months ended March 31, 2002 and 2001 is as follows:

(UNAUDITED)
(IN THOUSANDS OF DOLLA

	THREE MONTHS ENDED MARCH 31,		NIN
	2002	2001	2002
Net income	$ 30	$ 18	$ 63
Foreign currency translation adjustment	1	(1)	-
Net unrealized investment gain (loss)	15	58	1
Comprehensive income	$ 46	$ 75	$ 65

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 nine months ended March 31, 2002 and 2001 are as follows:

(UNAUDIT
(IN THOUSANDS O

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
Net revenue:		
Medical education & training products	$ 2,544	$ 2,018
Computer based training	39	166
Net revenue	$ 2,583	$ 2,184
Operating income (loss):		
Medical education & training products	$ 793	$ 448
Computer based training	(249)	(292)
Corporate	11	(178)
Operating income	$ 555	$ (22)
Net income (loss):		
Medical education & training products	$ 471	$ 235
Computer based training	(258)	(289)
Corporate	(183)	72
Net income	$ 30	$ 18

	MARCH 31, 2002	JUNE 30, 2001
Identifiable assets:		
Medical education & training products..................	$ 9,276	$ 8,388
Computer based training................................	1,736	1,887
Corporate..	5,170	4,633
Identifiable assets....................................	$16,182	$14,908

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 nine months ended March 31, 2002, as compared to the three and nine months ended March 31, 2001. 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.

We believe the following accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenues - Simulaids revenue is recorded when goods are shipped to the Company's customers. Safe Passage generates revenues from sales of software maintenance contracts. Revenue from software license agreements is recognized upon delivery of the software to the customer if there are no significant post delivery obligations and collection is probable. If a significant vendor obligation remains, then revenue is recognized under the percentage of completion method of accounting, whereby revenues and profit are recognized as work is performed based on the relationship between actual costs incurred and total estimated costs to complete. The cumulative impact of any revision in the estimate of the cost to complete is reflected in the period in which the changes become known. Software maintenance fees are recognized over the term of the maintenance period. Advance billings of license and software maintenance contracts are reflected as deferred revenue in the accompanying consolidated balance sheets.

Goodwill - 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, commencing July 1, 2001 the Company no longer records amortization of goodwill.

RESULTS OF OPERATIONS OF THE COMPANY

THREE MONTHS ENDED MARCH 31, 2002 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2001.

Net revenue for the three months ended March 31, 2002 increased 18.3% to $2,583 compared to net revenue of $2,184 for the same period in the prior year. The increase in revenue principally reflected revenue growth of $526 at Simulaids resulting from increases in sales of CPR manikins. The Simulaids increase was partially offset by decreased revenue of $127 at Safe Passage that reflected the downturn in the economy and in the technology sector in particular.

Gross profit for the three months ended March 31, 2002 increased 24.2% to $1,299 from $1,046 for the same period in the prior year and the gross margin percentage increased to 50.3% from 47.9%. The increase in gross profit reflected higher sales and improved plant efficiency for Simulaids, which generated $386 of increased gross profit, partially offset by a $133 decrease for Safe Passage due mainly to the decline in net revenue.

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Selling expense for the three months ended March 31, 2002 increased 32.5% to $220 from $166 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 partially offset by reductions in staffing levels at Safe Passage.

Product development expenses for the three months ended March 31, 2002 decreased 9.5% to $171 from $189 for the three months ended March 31, 2001. 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 March 31, 2002 decreased 40.4% to $353 compared to $592 for the comparable 2001 fiscal quarter. The decrease was primarily due to the recovery of contingency fees of $228 related to the tax settlement with the Internal Revenue Service.

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 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 ("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. If Safe Passage does not receive significant business from the FAA or the TSA by June 30, 2002, management anticipates that an impairment test may indicate the need to write off all or a portion of Safe Passage goodwill at its June 30, 2002 year-end.

Investment and interest income was $28 and $89 for the three months ended March 31, 2002 and 2001, respectively. The decrease in 2002 mainly reflects lower returns on investment balances.

Interest expense for the three months ended March 31, 2002 increased to $340 from $25 in the corresponding three months ended March 31, 2001. The increase primarily reflected $321 of interest due as part of the tax settlement with the Internal Revenue Service.

The equity loss in on-line university of $23 for the three months ended March 31, 2002 represents the initial costs of a continuing education joint venture with Quinnipiac University. The joint venture was formed in February 2001.

The income tax provision for the three months ended March 31, 2002 was $190 compared to $24 for the three months ended March 31, 2001. The increase principally reflected $190 of federal taxes due as part of the tax settlement with the Internal Revenue Service.

NINE MONTHS ENDED MARCH 31, 2002 AS COMPARED TO THE NINE MONTHS ENDED MARCH 31, 2001.

Net revenue for the nine months ended March 31, 2002 increased 24.3% to $7,449 compared to net revenue of $5,994 for the same period in the prior year. The increase in revenue principally reflects revenue growth at Simulaids of $1,592, 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 $137 at Safe Passage that reflected the downturn in the economy and in the technology sector in particular.

Gross profit for the nine months ended March 31, 2002 increased 29.6% to

$3,706 from $2,859 for the same period in the prior year and the gross margin percentage increased to 49.8% from 47.7%. 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 nine months ended March 31, 2002 increased 23.9% to $690 from $557 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 advertising expenses partially offset by reductions in staffing levels at Safe Passage.

Product development expenses for the nine months ended March 31, 2002 increased 38.6% to $485 from $350 for the nine months ended March 31, 2001. The increase principally reflected the inclusion of a full nine months' impact of Safe Passage and higher staffing levels at Simulaids.

The Company's general and administrative expenses for the nine months ended March 31, 2002 decreased 3.3% to $1,410 compared to $1,458 for the comparable period in 2001. The decrease was primarily due to the recovery of contingency fees of $228 related to the tax settlement with the Internal Revenue Service, partially offset by the inclusion of a full nine months' impact of Safe Passage and increased professional fees and higher staffing costs at Aristotle.

There was no goodwill amortization for the nine months ended March 31, 2002 compared to $310 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 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 ("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. If Safe Passage does not receive significant business from the FAA or the TSA by June 30, 2002, management anticipates that an impairment test may indicate the need to write off all or a portion of Safe Passage goodwill at its June 30, 2002 year-end.

Investment and interest income was $120 and $290 for the nine months ended March 31, 2002 and 2001, respectively. The decrease in 2002 mainly reflects lower returns on investment balances.

Interest expense for the nine months ended March 31, 2002 increased to $365 from $95 in the corresponding nine months ended March 31, 2001. The increase primarily reflected $321 of interest due as part of the tax settlement with the Internal Revenue Service.

The equity loss in on-line university of $36 for the nine months ended March 31, 2002 represents the initial costs of a continuing education joint venture with Quinnipiac University. The joint venture was formed in February 2001.

The income tax provision for the nine months ended March 31, 2002 was $204

compared to $47 for the nine months ended March 31, 2001. The increase principally reflected $190 of federal taxes due for the tax settlement with the Internal Revenue Service.

LIQUIDITY AND CAPITAL RESOURCES

Aristotle ended the March 31, 2002 quarter with $3,545 in cash and cash equivalents versus cash and cash equivalents of $4,149 at June 30, 2001. The decrease in cash for the nine months ended March 31, 2002 was principally the result of cash used for transaction costs of $947 related to the proposed merger with Nasco and capital expenditures of $231 partially offset by cash generated by operating activities of $604.

The Company generated cash from operations of $604 during the nine months ended March 31, 2002 and $848 from operations during the nine months ended March 31, 2001. During the nine months ended March 31, 2002, the generation of cash from operations was principally the result of net income before depreciation and amortization of $855 an increase in taxes and interest payable of $1,338 related to the tax settlement, partially offset by a decrease of accrued tax reserves of $720 related to the tax settlement, an increase in the amount due from a third party professional services firm of $335 related to the tax settlement and increases in accounts receivable of $298 and inventory of $188. During the nine months ended March 31, 2001, the generation of cash from operations was principally the result of net income of $367 and depreciation and amortization of $463.

The Company used cash for investing activities of $1,203 during the nine months ended March 31, 2002 and $848 during the nine months ended March 31, 2001. During the nine months ended March 31, 2002, the utilization of cash was principally for transaction costs of $947 related to the proposed merger with Nasco and capital expenditures of $231. During the nine months ended March 31, 2001, the utilization of cash was principally due to the acquisition of Safe Passage of $1,822, capital expenditures of $171, and initial expenditures of $39 for the development of an on-line continuing medical education program with Quinnipiac University, partially offset by the sale of marketable securities of $1,184.

The Company used cash of $5 in financing activities during the nine months ended March 31, 2002 and $906 in financing activities during the nine months ended March 31, 2001. During the nine months ended March 31, 2002, the utilization of cash was mainly due to the reduction of debt by $148 partially offset by $143 of cash generated from the sale of common shares. Funds utilized in the nine months ended March 31, 2001 reflect the reduction of debt by $906.

Our contractual cash obligations as of March 31, 2002, are as follows (in thousands):

			Payments Due by Period	
Contractual Obligations	Total Amounts Committed	Fiscal Year 2002	Fiscal Years 2003 and 2004	Fiscal Ye 2005 and

Principal portion of long-term debt.................	$ 662	$ 13	$107	$107
Principal portion of capital lease obligations..........	60	8	52	--
Employment obligations.....	977	209	768	--
Operating leases...........	31	26	5	--
Total......................	$1,730	$ 256	$932	$107

Long-term debt consists of the financing agreement between Simulaids and Citizens Bank of Connecticut used to finance land and buildings located in Woodstock, New York. Principal payments are scheduled on a fifteen-year straight-line amortization, with a balloon payment in September 2006. 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.

The capital lease obligation, related to computer equipment, consists of an arrangement with IBM Credit Corporation. The lease terms require monthly payments until January 2004 and bears interest at the annual rate of 8.54%.

The employment obligations consist of agreements with John J. Crawford and Paul M. McDonald of Aristotle and James S. Viscardi and Michael R. Rooksby of Safe Passage.

Aristotle leases its office facility in New Haven, Connecticut at a monthly cost of approximately $1 and expires on June 30, 2002. Safe Passage leases its office facility in Rochester, New York at a monthly cost of approximately $5 and expires on July 31, 2002.

Capital resources in the future are expected to be used for the development of the Simulaids and Safe Passage businesses, for additional costs anticipated in connection with 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 long-term borrowings.

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 long-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 March 31, 2002 are as follows:

	Maturity less than one Year	Maturity greater than one Year
Marketable securities		
Cost value	$ --	$ 901
Weighted average return	--	6.6%
Fair market value	$ --	$ 810
Long-term borrowings		
Amount	$ 85	$ 637
Weighted average interest rate	5.6%	4.1%
Fair market value	$ 85	$ 637

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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.

The Company announced on April 11, 2002 that it had reached a settlement with the Internal Revenue Service regarding a refund it had received in 1997 for a net operating loss carryback claim relating to its 1996 tax year. As previously reported, the IRS had been reviewing the amount of the refund, and the Company recorded a tax reserve of $720 with respect to such refund. In the settlement, the Company has agreed to pay approximately $682 (net of the amount due from a previously paid contingency fee) plus approximately $321 (net of the amount due from previously paid contingency fee), which represents interest on the portion of the unallowed refund claim. Accordingly, the Company has expensed $283 as of March 31, 2002.

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 additional capital to fund its business strategy on acceptable terms, if at all; (ii) the ability of Aristotle to consummate its previously announced proposed merger with Nasco International, Inc.; (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.

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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 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 April 11, 2002, we filed a Current Report on Form 8-K under Item 5 regarding the settlement agreement with the Internal Revenue Service.

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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: May 14, 2002

/s/ Paul McDonald

Paul McDonald
ITS CHIEF FINANCIAL OFFICER AND
SECRETARY (PRINCIPAL FINANCIAL AND
CHIEF ACCOUNTING OFFICER)
Date: May 14, 2002

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EXHIBIT INDEX

Exhibit Number	Description

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).

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.

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.

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.

Exhibit10.10--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.