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METATEC INTERNATIONAL INC
Form 10-K
March 29, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001

OR

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: 0-9220

METATEC INTERNATIONAL, INC.
(Exact name of Registrant as specified in its charter)

OHIO
(STATE OF INCORPORATION)

31-1647405
(I.R.S. EMPLOYER IDENTIFICATION NO.)

7001 Metatec Boulevard
Dublin, Ohio
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICE)

43017
(ZIP CODE)

Registrant's telephone number, including area code: (614) 761-2000

Securities registered pursuant to Section 12(b) of the Act:
None
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:
Common Shares, without par value
(Title of Class)

Indicate by check mark whether the Registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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The aggregate market value of the Common Shares held by nonaffiliates of the Registrant as of March 21, 2002, was \$2,169,240.

On March 11, 2002, the Registrant had 6,536,113 Common Shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for its annual meeting of shareholders to be held on May 16, 2002, which proxy statement will be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, are incorporated by reference into Part III, Items 10, 11, 12, and 13 of this Report.

METATEC INTERNATIONAL, INC.

FORM 10-K

PART I

ITEM 1. BUSINESS

GENERAL

Metatec International, Inc. ("Metatec") is transitioning from a disc manufacturing company to a supply chain solutions company that enables companies to streamline the process of delivering products and information to market by providing technology driven supply chain solutions that increase efficiencies and reduce costs. Metatec assists its customers with a wide range of services from preparing their products for market to delivering their finished product into the distribution channel or directly to the end-users. The solution is built on a solid technology foundation that includes both customized system integration and a web-based reporting and tracking tool that makes real-time information easily accessible. Technologies include CD-ROM (compact disc-read only memory) and DVD (digital versatile disc) manufacturing services, and secure Internet-based software distribution service. Metatec maintains operations in Ohio and The Netherlands. Metatec and its subsidiaries are hereinafter collectively referred to as the "Company."

Since its inception, Metatec has been recognized as a high quality provider of CD-ROM manufacturing and packaging services. The Company is considered a pioneer in optical disc technology, being one of the earliest companies to help U.S. businesses utilize the vast data storage capacity of optical media. As its core business, a majority of the Company's revenue continues to come from its optical disc manufacturing services. In recent years, the Company has expanded its core business offering by providing an expanded set of packaging and fulfillment services to its customers. More recently, and in response to both market conditions and customer need, the Company has begun transitioning into a provider of supply chain solutions while continuing to provide its core CD-ROM manufacturing capabilities as a component of the supply chain. For supply chain customers, the Company can provide support for the procurement of raw materials, packaging, warehousing, fulfillment, inventory management and returns management. These services are managed and integrated by extensive information technology that gives customers visibility into the supply chain to track the flow of information and product from raw material through delivery.

The Company's information technology infrastructure integrates the systems and applications of industry standard technology providers. These partnerships

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allow for a reliable, end-to-end system for information integration and exchange. The Company offers customized solution design services for customers to electronically link information exchange and process flow. Additionally, the Company's web-based tool, Metatec Exchange, is linked directly to the Company's order entry, production, and warehouse management systems providing real-time information about orders, inventory, and shipping status in a secure, online environment.

Electronic software distribution management is developed and offered through the Company's Metatec Express service and product support services. This service provides secure, traceable and verifiable distribution of software and information over the Internet, Extranets and Intranets. Metatec Express is a hosted, managed service providing secure, same day delivery of software and electronic documents anywhere in the world.

Prior to May 1999, the registrant was Metatec Corporation, a Florida corporation that was incorporated on September 9, 1976. At the annual meeting of shareholders in April 1999, the shareholders of Metatec Corporation approved a proposal to change the registrant's state of incorporation from Florida to Ohio through a merger of Metatec Corporation with and into its wholly owned subsidiary Metatec International, Inc., an Ohio corporation which was incorporated on March 8, 1999. The merger of Metatec Corporation into Metatec International, Inc. became effective in April 1999. At that time, the registrant became an Ohio corporation and its name changed to Metatec International, Inc. The term "Company" includes Metatec Corporation as the predecessor to Metatec International, Inc.

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FINANCIAL INFORMATION ON INDUSTRY SEGMENTS

Financial information on industry segments as required by Item 101(b) of Regulation S-K is set forth in Note 10 of the "Notes to the Consolidated Financial Statements," which Note is part of the financial statements contained in Item 8 of this Form 10-K, which Note is incorporated herein by reference.

INDUSTRY OVERVIEW

With increased competition, companies are seeking better methods to manage costs and speed products to market. These events have given rise to a focus on outsourcing critical non-core functions, such as supply chain management. Companies are looking for help in compressing the supply chain with single-source providers of services. The Company's history of providing CD-ROM manufacturing, packaging and fulfillment services to software companies presents an opportunity for growing the Company's business with focus on providing supply chain solutions. The Company has signed significant new business focused primarily on providing expanded supply chain services. Additionally, the Company has leveraged the existing customer base of companies using Metatec's CD-ROM manufacturing services by expanding the breadth of services provided. In some cases, the Company does not manufacture optical discs as part of the offering because the customer does not require optical discs or makes its product available through a different medium, such as interactive game cartridges or cell phones.

While use of optical discs is still a popular method for the distribution of business information, the commoditization of the market along with the continued development of Internet technology has significantly impacted the potential for continued growth in optical disc technology. The Company will continue to offer optical disc manufacturing services as a component of the supply chain solution but will devote substantial resources to developing and marketing supply chain solutions to industries with and without a need for

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optical disc technology.

PRINCIPAL PRODUCTS AND SERVICES

The Company provides technology driven supply chain solutions to help customers speed products to market. The Company's main revenue producing component of the supply chain is CD-ROM and DVD manufacturing. Customers utilize disc technology to distribute a wide array of time-sensitive information. Disc technology is economical when compared to more traditional forms of distribution, such as printing, and offers substantial capacity for large quantities of information. Common uses of disc technology include software distribution, catalogs, digital imagery and information containing code-intensive audio, video and graphic presentations.

The supply chain solution offering supports both the business-to-business and retail marketplaces. The Company markets its services through a direct sales force, and targets customers who generally have time-sensitive and recurring product and information distribution requirements.

The Company provides full-service supply chain solutions that include raw material procurement through distribution into the channel and direct-to-user product shipping. The Company has a 151,000 square foot distribution center at its Dublin, Ohio location to support its supply chain offering. The continued development and support of supply chain solutions will be the foundation for the future growth of the Company.

The Company offers its customers direct visibility into the supply chain through Metatec Exchange. Customers with access to the Internet can access a secure online area to check packaging, monitor job progress through Metatec's manufacturing plants and manage inventory levels. Metatec Exchange decreases communication time and enhances the exchange of information between Metatec and its customers. Additionally, customers can benefit from seamless information exchange with customized system integration into their back office systems.

The Company's Internet product is called Metatec Express. Metatec Express provides secure, traceable and verifiable transmission of software and information over the Internet, Extranets and Intranets. Metatec Express is a managed service providing secure same day delivery of software and electronic documents anywhere in the world.

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The Company's supply chain services, CD-ROM and DVD manufacturing services and Internet services can be used individually or in an integrated fashion by customers. For example, customers requiring software distribution through disc manufacturing can also offer updates or immediate content availability online.

The Company operates manufacturing and fulfillment sites in Dublin, Ohio; and Breda, The Netherlands. These state-of-the-art, ISO-9000 certified, facilities permit the Company to offer quick-turn services to major population centers and low-cost solutions to companies with geographically disbursed distribution needs. The ISO-9000 quality system certification means that the Company's manufacturing facilities meet worldwide standards for quality practices. The Company utilizes certain patents and technology in its manufacturing activities which it licenses from third parties and which the Company believes to be generally available to other manufacturers.

The Company does not believe that compliance with federal, state, and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has had or will have a material effect upon the capital expenditures, earnings, or competitive position of the Company. The Company does

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not anticipate any material capital expenditures for environmental control facilities for 2002.

MARKETING

The Company markets its products and services through a direct sales force. These associates are responsible for maintaining relationships with existing customers, revenue growth within existing customers and developing new business relationships. The associates are supported by customer service representatives that are responsible for ensuring that each order is processed in a timely manner and all required support materials are in place. The Company maintains customer support operations at its manufacturing and distribution facilities. The Company also makes use of a variety of marketing communications initiatives such as news media relations, the creation and distribution of sales collateral materials, online marketing communication programs, conferencing and presentation services and news wires.

COMPETITION

The Company has a number of competitors, some of which are larger and have greater financial resources than the Company. The Company believes that the principal competitive factors in supply chain solutions marketplace consist of service, quality, price, technology, industry expertise, and increasingly, is measured by the ability to create overall value for the customer. The Company believes that it competes favorably with respect to these factors in the supply chain solutions arena and continues to develop its offering to differentiate itself from the competition.

The Company differentiates itself from its competitors by providing an integrated supply chain solution that includes scalability and flexibility, personalized customer service, customized solution design, supply chain visibility and control, e-business solutions and Internet-based distribution solutions.

EMPLOYEES

The Company employed approximately 426 persons as of March 22, 2002. Approximately 300 employees are directly involved in the manufacturing and distribution process, and the remainder are involved in sales, administration, and support. The Company believes that its relations with its employees is good.

ITEM 2. PROPERTIES

The Company owns a 346,000 square foot office, manufacturing, and distribution and fulfillment facility situated on approximately 25 acres located at 7001 Metatec Boulevard, Dublin, Ohio. The Company's principal executive offices are located at this facility. This facility also includes sales, administration, and customer support operations. A first mortgage on the real estate and improvements at this location secures a credit facility of the Company.

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The Company leases approximately 25,000 square feet of manufacturing, customer support, and distribution and fulfillment facilities in Breda, The Netherlands.

ITEM 3. LEGAL PROCEEDINGS

The Company and numerous other parties have been named as defendants in a court proceeding filed in the United States District Court for the District of

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Arizona by the plaintiff, Lemelson Medical, Education & Research Foundation, Limited Partnership. In that court proceeding, the plaintiff is alleging that the defendants have infringed upon certain patents that allegedly are enforceable by the plaintiff. This court proceeding has been stayed pending the outcome of parallel litigation in Nevada that is challenging the validity of plaintiff's patents. At this time, the Company is unable to determine the likelihood of the outcome of either the Arizona or Nevada proceedings or whether an unfavorable outcome will be material to the Company.

The Company is involved in various legal claims arising from the normal course of business. While the ultimate liability, if any, from these proceedings is presently indeterminable, in the opinion of management, these matters should not have a material adverse effect on the consolidated financial statements of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the Company's fiscal year.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company and their respective ages and present positions with the Company are as follows:

| OFFICERS ----- | AGE --- | PRESENT POSITION(S) WITH THE COMPANY ----- |
|----------------------|------------|---|
| Christopher A. Munro | 41 | President and Chief Executive Officer |
| Julia A. Pollner | 39 | Senior Vice President, Finance, Secretary and Treasurer |
| Gary W. Qualmann | 50 | Chief Financial Officer |
| Martin G. Stokman | 41 | Vice President, Europe |

Mr. Munro has been President and Chief Executive Officer of the Company since December 7, 2001, and prior to that was Chief Operating Officer since joining the Company in January 2001. Prior to joining the Company, Mr. Munro held the position of senior vice president of strategy and development for Exel Logistics, a worldwide supply chain company with global headquarters in London UK. Mr. Munro was employed by Exel Logistics for over twenty years.

Ms. Pollner has been Senior Vice President, Finance, Treasurer, and Secretary of the Company since May 1998, and has held various accounting and finance positions with the Company since 1987.

Mr. Qualmann has been Chief Financial Officer of the Company since joining the Company on February 13, 2002. Mr. Qualmann also provided financial consulting services to the Company from October, 2001 until joining the Company. From March 1996 until June 2001, Mr. Qualmann was chief financial officer, treasurer, secretary and director of MindLeaders.com, Inc., an e-learning company based in Columbus, Ohio. From May 1988 until July 1995, Mr. Qualmann served as executive vice president and chief financial officer of Red Roof Inns, Inc., a lodging company based in Hilliard, Ohio.

Mr. Stokman has been Vice President, Europe of the Company since January 1999. Mr. Stokman joined the Company in October 1998, in connection with the Company's acquisition of the CD-ROM services business assets of Imation. From 1997 to 1998, Mr. Stokman was Imation's business manager for its CD-ROM services business in Europe. From 1995 to 1997, Mr. Stokman was a manager of a European

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distribution center for 3M, the former owner of Imation.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Shares are currently traded on the Nasdaq National Market system under the symbol META. Because the Company no longer meets the continued listing requirements for the Nasdaq National Market, the Company anticipates moving to the Over the Counter (OTC) Bulletin Board prior to the middle of May, 2002. The following table reflects the range of reported high and low last sales prices for the Common Shares for the periods indicated.

| | HIGH | LOW |
|----------------------------|--------|--------|
| | ----- | ----- |
| For the quarter ended 2001 | | |
| March 31..... | \$1.56 | \$0.81 |
| June 30..... | \$1.32 | \$0.56 |
| September 30..... | \$1.20 | \$0.66 |
| December 31..... | \$0.79 | \$0.20 |
| For the quarter ended 2000 | | |
| March 31..... | \$7.25 | \$2.66 |
| June 30..... | \$3.88 | \$2.34 |
| September 30..... | \$3.38 | \$2.00 |
| December 31..... | \$2.44 | \$0.81 |

As of March 22, 2002 there were 3,848 holders of record of the Common Shares, and the last sales price per share on that date, as reported by the Nasdaq National Market system, was \$0.31.

The Company has never paid cash dividends on its Common Shares, and it does not expect to pay cash dividends in the foreseeable future. The terms of the Company's credit facilities prohibit it from paying cash dividends or making any other distributions to shareholders without the prior consent of the administrative agent of these credit facilities.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|-----------------|-----------------|----------------|---------------|--------------|
| | ----- | ----- | ----- | ----- | ----- |
| Sales..... | \$ 77,282,005 | \$104,231,047 | \$120,281,047 | \$ 80,919,128 | \$48,933,634 |
| Earnings (loss) before income taxes..... | \$ (29,931,839) | \$ (18,362,618) | \$ (4,166,290) | \$ 2,684,769 | \$ 1,040,534 |
| Net earnings (loss)..... | \$ (29,973,839) | \$ (17,532,618) | \$ (2,846,290) | \$ 1,422,769 | \$ 491,534 |
| Earnings (loss) per common share: | | | | | |
| Basic and diluted..... | \$ (4.88) | \$ (2.88) | \$ (0.47) | \$ 0.23 | \$ 0.07 |
| Weighted average number of common shares | | | | | |

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| | | | | | |
|---|----------------|---------------|---------------|---------------|--------------|
| outstanding: | | | | | |
| Basic..... | 6,136,002 | 6,085,426 | 6,074,879 | 6,058,414 | 6,791,836 |
| Diluted..... | 6,136,002 | 6,085,426 | 6,074,879 | 6,115,084 | 7,189,266 |
| Total assets..... | \$ 47,374,571 | \$ 77,332,873 | \$111,407,753 | \$105,442,814 | \$52,871,893 |
| Long-term liabilities... | \$ 39,395,641 | \$ 35,920,386 | \$ 47,382,793 | \$ 41,031,569 | \$ 5,893,410 |
| Shareholders' equity (deficiency)..... | \$ (9,145,080) | \$ 20,171,877 | \$ 37,862,192 | \$ 41,949,897 | \$41,194,053 |

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of accounting policies, many of which require the Company's management to make estimates and assumptions about future events and their impact on amounts reported in the Company's financial statements and related notes. Since future events and their impact cannot be determined with certainty, actual results will inevitably differ from management's estimates. Such differences could be material to the Company's financial statements.

Management believes that its application of accounting policies, and the estimates inherently required therein, are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change.

The Company's accounting policies are more fully described in Note 1 to the consolidated financial statements included elsewhere in this Form 10-K (see Item 8 herein). Described below are certain critical accounting policies which management believes are important to emphasize. These critical accounting policies are not intended to be a comprehensive list of all the Company's accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by accounting principles generally accepted in the United States of America, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting other available alternatives would not produce a materially different result.

Long-lived assets. In evaluating the fair value and future benefits of long-lived assets, management completes an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets and reduces their carrying value by the excess, if any, as a result of such calculation. Management believes that the long-lived assets' carrying values and useful lives are appropriate.

Allowance for doubtful accounts. Management has attempted to reserve for expected credit losses based on the Company's past experience with similar accounts receivable, and it believes that the Company's reserves are adequate. It is possible, however, that the accuracy of management's estimation process could be materially impacted as the composition of this pool of accounts receivable changes over time. Management continually reviews and refines the estimation process to make it as reactive to these changes as possible.

Litigation. The Company and its legal counsel evaluate litigation and

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review the likelihood of an outcome and the resulting materiality to the Company. The Company is involved in various legal claims arising from the normal course of its business. While the ultimate liability, if any, from these proceedings is presently indeterminable, in the opinion of management, these matters should not have a material adverse effect on the consolidated financial statements of the Company.

Income taxes. The Company has a history of unprofitable operations. These losses generated a sizeable federal tax net operating loss, or NOL, carryforward of as of December 31, 2001. Accounting principles generally accepted in the United States of America require the Company to record a valuation allowance against the deferred tax asset associated with this NOL if it is "more likely than not" that the Company will not be able to utilize the NOL to offset future taxes. Due to the size of the NOL carryforward in relation to the Company's history of unprofitable operations, management has not recognized any net deferred tax asset in the Company's financial statements.

In the future the Company could achieve levels of profitability which could cause management to conclude that it is more likely than not that the Company will realize all or a portion of the NOL carryforward. Upon reaching such a conclusion, the Company would record the estimated net realizable value of the deferred tax asset at that time and would then provide for income taxes at a rate equal to the Company's combined federal and state effective rates.

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BUSINESS OF THE COMPANY

The Company is transitioning from a disc manufacturing company to a supply chain solutions company that enables companies to streamline the process of delivering products and information to market by providing technology driven supply chain solutions that increase efficiencies and reduce costs. The Company assists its customers with a wide range of services from preparing their product for market to delivering their finished product into the distribution channel or directly to the end-users. The solution is built on a solid technology foundation that includes both customized system integration and a web-based reporting and tracking tool that makes real-time information easily accessible. Technologies include CD-ROM and DVD manufacturing services and secure Internet-based software distribution service. The Company's core CD-ROM manufacturing capabilities serve as a component of the supply chain. The Company maintains operations in Ohio and The Netherlands. Revenues attributed to product types are distinguished as CD-ROM sales and other sales.

RESULTS OF OPERATIONS -- 2001 COMPARED TO 2000

Net sales in 2001 were \$77,282,000, a decrease of \$26,949,000, or 26% from 2000. This decrease resulted primarily from CD-ROM manufacturing sales decreasing \$26,123,000 to \$71,667,000 for 2001, or 27%. This decrease was due to several factors. First, the pricing for CD-ROM products and services continued to decline or remained at low levels industry-wide due to excess manufacturing capacity, a trend the Company anticipates will continue into 2002. Second, the demand for the Company's CD-ROM products and services declined due to several factors, including a decline in general economic conditions compounded by the events of September 11, 2001, the continued increase in customers using on-line or electronic methods to distribute information, and the continued maturation of the CD-ROM market. Finally, management made a decision in 2001 to reduce the number of the Company's low-margin disc manufacturing customers. The Company anticipates that these factors may continue to impact the demand for the Company's CD-ROM products and services in 2002. Radio syndication sales decreased \$1,493,000, or 47%, to \$1,660,000 in 2001, primarily as a result of some customers choosing to use CD-Recordable as a distribution method for

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smaller size orders. The Company expects this trend to continue for the foreseeable future. DVD sales accounted for \$2,210,000 in 2001, as compared to \$1,973,000 in 2000.

Gross profit was 25% of net sales for 2001 and 28% of net sales for 2000. This reduction was primarily caused by the reduced utilization of the Company's manufacturing capacity and the continued decline of pricing for CD-ROM products and services.

Selling, general and administrative expenses ("SG&A") decreased to \$25,246,000, or 33% of net sales, for 2001 as compared to \$27,374,000, or 26% of net sales, for 2000. The SG&A expense reduction in dollars was primarily attributed to the restructuring and workforce reductions, which occurred in the first, third, and fourth quarters of 2001, although the Company's decreased sales caused SG&A expenses to increase as a percentage of net sales.

At each balance sheet date, a determination is made by management to ascertain whether goodwill or any long-lived assets have been impaired based upon several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows, and other operating factors. At the end of 2001, management evaluated these criteria and determined that certain goodwill and long-lived assets associated with the Company's Dublin, Ohio and Breda, The Netherlands operations, were impaired. Accordingly, in the fourth quarter of 2001, the Company recorded a \$13.0 million write-down of the carrying value of these impaired assets based on the discounted cash flows of the operations. In addition the Company made the decision to discontinue its implementation of an ERP system, which resulted in a charge of \$2.5 million during 2001. In 2000, the Company recorded a \$15.6 million writedown of the carrying value of impaired assets based on the discounted cash flows of the operations. At December 31, 2001, there is no remaining goodwill on the balance sheet as compared to \$4.6 million at December 31, 2000.

Restructuring expenses of \$2,041,000 were incurred during 2001, as compared to restructuring expenses of \$475,000 in 2000. The 2001 restructuring expenses consisted primarily of severance and termination benefits related to a U.S. and European workforce reduction of approximately 42% and separation benefits for an executive as well as restructuring costs related to the closing of two sales offices. The workforce reduction was

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accomplished through attrition, unfilled vacancies, and layoffs of temporary and some full time employees. See Note 2 of the Consolidated Financial Statements.

Additional restructuring charges of \$3,068,000 were incurred during the fourth quarter of 2001, related to the closure of the Company's Milpitas, California ("Silicon Valley") manufacturing facility. In connection with this restructuring, the Company completed the sale of its manufacturing assets associated with the Silicon Valley facility and terminated the lease for this facility. See Note 2 of the Consolidated Financial Statements.

Investment income was \$51,000 for 2001 as compared to \$33,000 for 2000. The increase in investment income was a result of higher cash and cash equivalent balances. Interest expense was \$3,474,000 for 2001 as compared to \$4,242,000 for 2000. The decrease in interest expense was the result of decreased borrowings under the Company's credit facilities, as well as decreases in the interest rate.

Income tax of \$42,000 was incurred in 2001, or an effective tax rate of .14% due to the Company recording a full valuation allowance on all net tax assets. The income tax benefit was \$830,000 in 2000, or an effective tax benefit of 4.5%.

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As a result of the foregoing, the net loss for 2001 was \$29,973,839, or basic and diluted losses per common share of \$(4.88) as compared to the 2000 net loss of \$17,533,000, or basic and diluted losses per common share of \$(2.88).

RESULTS OF OPERATIONS -- 2000 COMPARED TO 1999

Net sales in 2000 were \$104,231,000, a decrease of \$16,050,000, or 13% from 1999. This decrease resulted primarily from CD-ROM manufacturing sales decreasing \$14,959,000 to \$97,790,000 for 2000, or 13%. This decrease was due to several factors. In 2000, the pricing for CD-ROM products and services continued to decline industry-wide due to excess manufacturing capacity. In addition, the demand for the Company's CD-ROM products and services declined primarily due to a decline in general economic conditions, the continued increase in customers using on-line or electronic methods to distribute information, and the continued maturation of the CD-ROM market. Radio syndication sales decreased \$1,050,000, or 25%, to \$3,153,000 in 2000, primarily as a result of some customers choosing to use CD-Recordable as a distribution method for smaller size orders. DVD sales accounted for \$1,973,000 in 2000, as compared to \$751,000 in 1999.

Gross profit was 28% of net sales for 2000 and 1999.

Selling, general and administrative expenses ("SG&A") decreased to \$27,374,000, or 26% of net sales, for 2000 as compared to \$32,911,000, or 27% of net sales, for 1999. This reduction was primarily attributed to the restructuring and workforce reductions, which occurred in the first and fourth quarters of 2000.

At each balance sheet date, a determination is made by management to ascertain whether goodwill or any fixed assets have been impaired based upon several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows, and other operating factors. At the end of 2000, management evaluated these criteria and determined that certain goodwill and fixed assets associated with the Company's Milpitas, California ("Silicon Valley") operations, which were acquired from Imation Corporation ("Imation") in September 1998, were impaired. Accordingly, in the fourth quarter of 2000, the Company recorded a \$15.6 million writedown of the carrying value of these impaired assets based on the discounted cash flows of the operations. At December 31, 2000, the remaining goodwill on the balance sheet was \$4.6 million as compared to \$18.3 million at December 31, 1999.

Restructuring expenses of \$431,000 and \$44,000 were incurred during the first and fourth quarters of 2000. These restructuring expenses consisted primarily of severance and termination benefits related to the completion of a U.S. workforce reduction of approximately 12%. The workforce reduction was accomplished through attrition, unfilled vacancies, and layoffs of temporary and some full time employees.

Investment income was \$33,000 for 2000 as compared to \$25,000 for 1999. The increase in investment income was a result of higher cash and cash equivalent balances.

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Interest expense was \$4,242,000 for 2000 as compared to \$3,336,000 for 1999. The increase in interest expense was the result of increased borrowings under the Company's credit facilities, as well as increases in the interest rate.

The income tax benefit was \$830,000 in 2000, or an effective tax benefit of 4.5%, as compared to an income tax benefit of \$1,320,000 in 1999, or an

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effective tax rate of 32%. The primary reason for the decrease was the recording of a valuation allowance in connection with the writedown of the carrying value of fixed assets and goodwill associated with the Silicon Valley operations acquired from Imation, due to the uncertainty of realizing the value of such benefit.

As a result of the foregoing, the net loss for 2000 was \$17,533,000, or basic and diluted losses per common share of \$(2.88), as compared to the 1999 net loss of \$2,846,000, or basic and diluted losses per common share of \$(.47).

IMPACT OF INFLATION

Although inflation has an effect on salaries, employee benefits and other operating expenses, after considering general inflationary trends, the Company's operations were not significantly affected by inflation in 2001.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

Derivative Instruments and Hedging Activities -- The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133 on January 1, 2001. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangibles." SFAS 142 is effective for all fiscal years beginning after December 15, 2001, and requires changes in the amortization of certain goodwill and intangible assets. These assets, which were previously being amortized, will be assessed at least annually for impairment. Management does not believe the adoption of this statement will have an impact on the Company's consolidated financial statements since the Company's goodwill was fully impaired at December 31, 2001 and written off.

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." While this statement supercedes SFAS No. 121, "Accounting for Impairment of Long-Lived Assets to Be Disposed Of" it retains the fundamental provisions of SFAS No. 121 for recognition and impairments of assets to be held and used, and assets to be disposed of by sale. This statement is effective for the first quarter in the year ended December 31, 2002. Management does not expect the adoption of this statement to have a material effect on its consolidated financial statements.

FINANCIAL CONDITION -- LIQUIDITY AND CAPITAL RESOURCES

Source of Liquidity

The Company's principal source of liquidity in 2001 was cash flows generated from operations. Cash flow from operating activities was \$5,148,000, \$14,783,000, and \$10,694,000 for 2001, 2000 and 1999, respectively. The Company anticipates that cash flows generated from operations will continue to be its principal source of liquidity during 2002.

Bank Financing Matters

The Company has a term loan facility and a revolving loan facility (collectively, the "Credit Facility") with its banks. As of December 31, 2001, its banks had declared the Company in default of the Credit Facilities due to the Company's failure to satisfy a financial covenant contained in the loan agreement for the Credit Facilities. As

of December 31, 2001, \$9,326,000 and \$9,605,000 were outstanding under the term loan facility and the revolving loan facility, respectively.

On February 8, 2002, the Company entered into an amended and restated loan agreement (the "Amended Loan Agreement") with its banks which replaced the Company's prior agreement with its banks. Under the Amended Loan Agreement, the Credit Facilities consist of three separate loans: (1) an asset based revolving loan facility with a borrowing base as described below; (2) a term loan facility in the principal amount of \$9,326,250; and (3) a second term loan facility in the original principal amount of \$509,238, which principal amount may be increased up to \$1,000,000 by advances made to the Company through December 31, 2002. The borrowing base of the revolving loan facility is limited to the lesser of (i) \$12,490,762, or (ii) the sum of (A) 80% of eligible domestic accounts receivable, plus (B) 30% of eligible domestic inventory, plus (C) 90% of domestic machinery and equipment. The borrowing base is further reduced by the aggregate amount of the Company's outstanding letters of credit and is permanently reduced by the amount of any additional advances made to the company under the second term loan facility.

The revolving loan and the term loans under the Credit Facilities mature on April 1, 2004. Quarterly principal payments are required for the term loans beginning in June 2002 if cashflows exceed certain specified targets over designated periods of time. The Credit Facilities are secured by a first lien on all non-real estate business assets of the Company and a pledge of the stock of the Company's subsidiaries. The Company is required to comply with the financial and other covenants contained in the Amended Loan Agreement. The revolving loan and the term loans accrue interest at a rate equal to 3.5% in excess of the prime rate of the banks. Certain fees are required to be paid to the banks in connection with the Credit Facilities. The Company expects that it will be able to negotiate a new borrowing facility prior to April 1, 2004; however, there can be no assurance that the Company will be able to do so.

The Company has a \$19,000,000 term loan facility which was used to permanently finance the Company's Dublin, Ohio distribution center completed in 1999 and to pay down other bank debt. The loan facility has an outstanding principal balance of \$18,685,285 as of December 31, 2001. This term loan facility is payable in monthly principal and interest payments based upon a thirty year amortization schedule, bears interest at a fixed rate of 8.2%, and matures on September 1, 2009. This loan facility is secured by a first lien on all real property of the Company and letters of credit in favor of the lender, in an aggregate amount of \$1,650,000.

Other Liquidity Matters

The Company completed the sale of certain of its manufacturing assets associated with its Silicon Valley facility on January 15, 2002 for approximately \$1.0 million. The sale transaction was effective as of December 31, 2001.

The Company and the landlord of its Silicon Valley facility agreed to terminate the lease for this facility on January 15, 2002. The lease termination agreement was effective as of December 31, 2001. The lease termination relieved the Company of paying approximately \$12.2 million in lease payments due over the next seven years. In exchange for its agreement to terminate the lease, the landlord received a \$1.5 million unsecured, non-interest bearing promissory note (discounted to \$1,228,349 at 8.5%) due in four equal installments beginning in January 2003, approximately \$1.1 million in cash, and 300,000 shares of the Company's common stock.

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Recurring capital needs resulted in the purchase of \$1,587,000 in property, plant and equipment during 2001, as compared to \$5,060,000 in 2000 and \$21,371,000 in 1999. In addition, during 2001 the Company bought out certain equipment previously leased under operating leases totaling \$948,000.

The Company did not carry any off-balance sheet derivative financial instruments or have any off-balance sheet financial arrangements at December 31, 2001.

Plan to Improve Liquidity and Financial Condition

The Company had working capital of \$700,000 as of December 31, 2001, as compared to working capital of \$605,000 as of December 31, 2000. The Company incurred a net loss of \$29,974,000 in 2001. Included in this loss were charges resulting from the impairment of goodwill and long-lived assets and restructuring charges

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totaling \$20,576,000. As a result of such loss, the Company had shareholders' deficiency of \$9,145,000 as of December 31, 2001, as compared to a shareholders' equity of \$20,172,000 as of December 31, 2000. These financial conditions present both short-term and long-term liquidity issues for the Company.

Management is addressing, and has addressed, the short-term liquidity situation in a number of ways. First, in response to declining pricing and reduced demand for CD-ROM products, management is transitioning the Company from a disc manufacturing company to a supply chain solutions company. Management is also focusing on higher-margin customers in certain industries and reducing the number of the Company's low-margin disc customers. Second, as discussed, management has significantly reduced expenses in a number of ways, such as implementing a 42% workforce reduction, closing the Company's Silicon Valley facility in 2001 and terminating the related lease, and continuing to implement cost saving measures. Finally, the maturity date of the Company's Credit Facilities was extended until April 2004.

The Company has generated positive cash flows from operations in each of the last three fiscal years. Management believes that the Company's current focus on its core business customers, and continued cost saving measures will allow it to generate sufficient cash flows to meet operational needs in 2002. However, there can be no assurance that such measures will allow the Company to generate sufficient cash flows in 2002. Furthermore, additional actions will need to be taken to address then Company's long-term liquidity issues as a result of the Company's shareholders' deficiency.

The Amended Loan Agreement with the banks includes financial covenants which require the Company to meet specified cash flow thresholds over designated periods of time. There can be no assurance that the Company will be able to meet these cash flow thresholds over such periods of time. See also "Forward Looking Statements; Risk Factors Affecting Future Results" which is part of this Item 7 for a further discussion of these and other risk factors which have affected and in the future could affect the Company's financial performance.

STATEMENT OF MANAGEMENT RESPONSIBILITY

The consolidated financial statements of the Company are the responsibility of management, and those statements have been prepared in accordance with accounting principles generally accepted in the United States of America. All available information and management's judgment of current conditions and circumstances have been reflected. Management accepts full responsibility for the accuracy, integrity and objectivity of the financial information included in

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this report.

To provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records are reliable for preparing financial statements, management maintains systems of accounting and internal controls, including written policies and procedures, which are communicated to all appropriate levels of the Company. Management believes that the Company's accounting and internal control systems provide reasonable assurance that assets are safeguarded and financial information is reliable.

Maintenance of sound internal control by division of responsibilities is augmented by internal review programs and an Audit Committee of the Board of Directors. The Audit Committee reviews the scope of the audits performed by the independent public accountants, Deloitte & Touche LLP, together with their audit report and any recommendations made by them. The independent accountants have free access to meet with the Audit Committee and Board of Directors with or without management representatives present.

Christopher A. Munro
President and
Chief Executive Officer

Gary W. Qualmann
Chief Financial Officer

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FORWARD LOOKING STATEMENTS; RISK FACTORS AFFECTING FUTURE RESULTS

Statements contained in this Form 10-K or any other reports or documents prepared by the Company or made by management of the Company may be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to certain risks and uncertainties that could cause the Company's operating results to differ materially from those projected. Forward-looking statements include, by way of example and without limitation, statements concerning plans, objectives, goals, strategies, future events of performance and underlying assumptions and other statements, which are other than statements of historical facts, and information concerning future results of the operations of the Company. Forward-looking statements may be identified, preceded by, followed by or otherwise include, without limitation, words such as "believes," "expects," "anticipates," "intends," "estimates" or similar expressions. There can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. The following risk factors, among others, in some cases have affected and in the future could affect the Company's actual financial performance.

RISKS ASSOCIATED WITH COMPANY'S FINANCIAL CONDITION

For the years ended December 31, 2001, 2000, and 1999, the Company's net losses were \$29,970,000, \$17,530,000, and \$2,850,000, respectively. The Company cannot assure shareholders when, or whether, the Company will become, or remain profitable. The continued incurrence of losses will have a material adverse effect on the Company's financial position and ability to continue operations.

As of December 31, 2001, the Company had a shareholders' deficiency of \$9,145,000. In the event of any sale or liquidation of the Company or its assets, there can be no assurance that any value will be realized by the Company's shareholders.

The Company's Amended Loan Agreement with its banks includes financial

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covenants which require the Company to meet specified cash flow thresholds over designated periods of time. There can be no assurance that the Company will be able to meet these cash flow thresholds over such periods of time. The Company's failure to meet these cash flow thresholds is an event of default under the Amended Loan Agreement which would allow the banks to accelerate the payment of the Credit Facilities and to exercise their other rights and remedies under the Amended Loan Agreement, including the potential forced sale or liquidation of the Company or its assets.

The Company's liquidity and its ability to meet its current and long-term financial obligations as they become due will be dependent upon the Company's financial performance and its ability to meet the cash flow thresholds required by the Amended Loan Agreement. The Company's failure to meet these cash flow thresholds would have a material adverse effect on the Company's financial position and ability to continue operations.

PRODUCT CONCENTRATION; DEMAND FOR PRODUCTS

Revenues from CD-ROM manufacturing sales constituted substantially all of the Company's revenues for 2001. Although the Company is implementing a plan to increase revenues from its supply chain solution services, CD-ROM manufacturing sales are expected to continue to account for substantially all of the Company's revenues for the foreseeable future.

The Company experienced a material decrease in revenues in its CD-ROM manufacturing sales in 2001. This decrease was caused, in part, by a decline in the demand for the Company's CD-ROM products and services, which decline was caused primarily by (i) a decline in general economic conditions, compounded by the events of September 11, 2001, (ii) the continued increase in customers using online and electronic methods to distribute information rather than CD-ROM, and (iii) the continued maturation of the market for CD-ROM products. The Company anticipates that these factors will continue to impact the demand for the Company's CD-ROM products and services in 2002, which may cause a further decline in CD-ROM manufacturing sales in 2002. The continued decrease in demand for the Company's products and services would have a material adverse effect on the Company's operating results.

Included in the Company's CD-ROM products and services are audio CDs for the radio syndication programming services market. Radio syndication sales significantly declined in 2001 and 2000 due to customers

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choosing to use CD-Recordable as a distribution method for smaller size orders, a trend that the Company believes will continue for the foreseeable future. Due to this change in the distribution method, along with the maturity of the radio syndication programming services market and the Company's existing share of sales in that market, the Company believes that revenues from radio syndication sales will continue to decline for the foreseeable future.

PRICING

In 2001, the pricing for CD-ROM products and services continued to decline or remained at low-levels industry-wide due to excess manufacturing capacity, a trend the Company anticipates will continue into 2002. In prior years, market growth offset increased manufacturing capacity in the CD-ROM industry. However, this growth has ceased due to the maturation of this market. In addition, the Company's pricing of its new products and services may not in all cases be competitive with the other providers in the marketplace, and some new products and services may not be profitable.

COMPETITION

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The Company faces competition in the information distribution industry from a number of sources, such as traditional print publishers, distributors of information, CD-ROM manufacturers, and others. The Company's competitors vary by market segment and include many companies which are larger, more established, and have substantially more resources than the Company. The Company does not benefit from patents or proprietary technology, and competition may increase in the future.

TECHNOLOGICAL CHANGE

The market for information distribution services incorporating optical disc technology is based upon a sophisticated technology and is subject to rapid technological change. Current or new competitors may introduce new products, features or services that could adversely affect the Company's competitive position. Additionally, there can be no assurance that over time optical disc technology will not be replaced by another form of information storage and retrieval technology, such as electronic information services. The Company must continue to improve its products and related services and develop and successfully market new products and services in order to remain competitive. There can be no assurance that it will be able to do so.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not use derivative financial instruments in its investment portfolio except for forward contracts used to hedge the net receivable/payable position arising from an intercompany note between the Company and its European subsidiary. During the fourth quarter of 2001, the Company terminated these forward contracts, with the proceeds reducing the Company's debt to one of its lenders. The Company places its investments in instruments that meet high credit quality standards. The Company does not expect any material loss with respect to its investment portfolio.

The Company utilizes term and revolving bank debt with variable interest rates of 3.5% above prime, and therefore, the Company is effected by changes in market interest rates. The Company does not expect changes in interest rates to have a material effect on income or cash flows in fiscal 2002, although there can be no assurances that interest rates will not significantly change.

The effect of foreign exchange rate fluctuations on the Company's statements of operations for the year's ended December 31, 2001 and 2000 were not material. However, the Company could realize a significant effect of the currency fluctuation, based on a dollar note its Dutch subsidiary holds. The U.S. parent company is the holder of this note.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Metatec International, Inc.:

We have audited the accompanying consolidated balance sheets of Metatec International, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Metatec International, Inc. and subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

DELOITTE & TOUCHE LLP
March 1, 2002
Columbus, Ohio

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METATEC INTERNATIONAL, INC.

CONSOLIDATED BALANCE SHEETS

| | AT DECEMBER 31, | |
|--|---------------------|---------------------|
| | 2001 | 2000 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 1,981,184 | \$ 2,086,228 |
| Accounts receivable | | |
| Trade, net of allowance for doubtful accounts of | | |
| \$401,000 and \$351,000..... | 12,006,645 | 15,146,714 |
| Due from sale of assets..... | 1,000,000 | 0 |
| Inventory..... | 2,075,445 | 2,970,219 |
| Prepaid expenses..... | 760,470 | 1,054,362 |
| Deferred income taxes..... | 0 | 588,107 |
| | 17,823,744 | 21,845,630 |
| Total current assets..... | | |
| Property, plant and equipment -- net..... | 29,381,661 | 50,455,317 |
| Goodwill -- net..... | 0 | 4,631,036 |
| Other assets..... | 169,166 | 296,890 |
| Deferred income taxes..... | 0 | 104,000 |
| | \$47,374,571 | \$77,332,873 |
| TOTAL ASSETS..... | \$47,374,571 | \$77,332,873 |
| LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIENCY) | | |
| Current liabilities: | | |
| Accounts payable..... | \$ 5,088,149 | \$ 6,411,588 |
| Accrued expenses: | | |
| Royalties..... | 5,468,135 | 3,712,796 |
| Personal property taxes..... | 1,110,819 | 1,270,425 |

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| | | |
|--|--------------|--------------|
| Payroll..... | 911,014 | 1,193,054 |
| Restructuring..... | 2,658,275 | 60,797 |
| Other..... | 1,510,377 | 1,209,600 |
| Unearned income..... | 194,366 | 234,235 |
| Current maturities of long-term real estate debt..... | 157,399 | 170,087 |
| Current maturities of other long-term debt and capital lease obligations..... | 25,476 | 6,978,028 |
| | ----- | ----- |
| Total current liabilities..... | 17,124,010 | 21,240,610 |
| Long-term real estate debt..... | 18,527,886 | 18,623,708 |
| Other long-term debt and capital lease obligations, less current maturities..... | 20,194,352 | 16,769,506 |
| Other long-term liabilities..... | 673,403 | 527,172 |
| | ----- | ----- |
| Total liabilities..... | 56,519,651 | 57,160,996 |
| | ----- | ----- |
| Commitments and contingencies (Notes 4, 5, and 6) | | |
| Shareholders' equity (deficiency): | | |
| Common stock, no par value; authorized 10,000,000 shares; issued 2001 -- 7,217,855 shares; 2000 -- 7,177,855 shares..... | 35,031,138 | 34,991,138 |
| Accumulated deficit..... | (37,547,201) | (7,573,362) |
| Accumulated other comprehensive loss..... | (786,480) | (1,423,362) |
| Treasury stock, at cost; 1,081,742 shares..... | (5,822,537) | (5,822,537) |
| Unamortized restricted stock..... | (20,000) | 0 |
| | ----- | ----- |
| Total shareholders' equity (deficiency)..... | (9,145,080) | 20,171,877 |
| | ----- | ----- |
| TOTAL LIABILITIES & SHAREHOLDERS' EQUITY (DEFICIENCY)..... | \$47,374,571 | \$77,332,873 |
| | ===== | ===== |

See notes to consolidated financial statements.

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METATEC INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

| | YEARS ENDED DECEMBER 31, | | |
|---|--------------------------|---------------|---------------|
| | 2001 | 2000 | 1999 |
| | ----- | ----- | ----- |
| NET SALES..... | \$ 77,282,005 | \$104,231,047 | \$120,281,047 |
| Cost of sales..... | 57,969,326 | 74,897,674 | 87,174,319 |
| | ----- | ----- | ----- |
| Gross profit..... | 19,312,679 | 29,333,373 | 33,106,728 |
| Selling, general and administrative expenses..... | 25,245,823 | 27,374,306 | 32,910,549 |
| Impairment of goodwill and assets and other restructuring costs..... | 20,575,956 | 16,112,287 | 1,050,722 |
| | ----- | ----- | ----- |
| OPERATING LOSS..... | (26,509,100) | (14,153,220) | (854,543) |
| Other income (expense): | | | |
| Investment income..... | 50,910 | 32,844 | 24,520 |
| Interest expense..... | (3,473,649) | (4,242,242) | (3,336,267) |
| | ----- | ----- | ----- |
| LOSS BEFORE INCOME TAXES..... | (29,931,839) | (18,362,618) | (4,166,290) |

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| | | | |
|--|-----------------|-----------------|----------------|
| Income taxes (benefit)..... | 42,000 | (830,000) | (1,320,000) |
| NET LOSS..... | \$ (29,973,839) | \$ (17,532,618) | \$ (2,846,290) |
| NET LOSS PER COMMON SHARE: | | | |
| Basic and diluted..... | \$ (4.88) | \$ (2.88) | \$ (0.47) |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING: | | | |
| Basic and diluted..... | 6,136,002 | 6,085,426 | 6,074,879 |

See notes to consolidated financial statements.

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METATEC INTERNATIONAL, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIENCY)

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | RETAINED EARNINGS/ (ACCUMULATED DEFICIT) | ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) | TREASU STOCK |
|--|-----------------|----------------------------------|---|--|-----------------|
| | ----- | ----- | ----- | ----- | ----- |
| BALANCE AT DECEMBER 31, 1998..... | \$ 715,348 | \$34,218,577 | \$12,805,546 | \$ 32,963 | \$ (5,822) |
| Comprehensive Loss: | | | | | |
| Net loss..... | | | (2,846,290) | | |
| Foreign currency translation adjustments.. | | | | (1,256,628) | |
| Comprehensive loss..... | | | | | |
| Stock options exercised..... | 388 | 10,825 | | | |
| Tax benefit relating to stock options..... | | 4,000 | | | |
| Elimination of par value..... | 34,233,402 | (34,233,402) | | | |
| BALANCE AT DECEMBER 31, 1999..... | 34,949,138 | 0 | 9,959,256 | (1,223,665) | (5,822) |
| Comprehensive Loss: | | | | | |
| Net loss..... | | | (17,532,618) | | |
| Foreign currency translation adjustments.. | | | | (199,697) | |
| Comprehensive loss..... | | | | | |
| Stock options exercised..... | 32,000 | | | | |
| Tax benefit relating to stock options..... | 10,000 | | | | |
| BALANCE AT DECEMBER 31, 2000..... | 34,991,138 | 0 | (7,573,362) | (1,423,362) | (5,822) |
| Comprehensive Loss: | | | | | |
| Net loss..... | | | (29,973,839) | | |
| Foreign currency translation adjustments.. | | | | (311,579) | |
| Gain on termination of forward contracts..... | | | | 948,461 | |

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| | | | | | |
|--|--------------|------|----------------|--------------|---------------|
| Comprehensive loss..... | | | | | |
| Issuance of restricted shares..... | 40,000 | | | | |
| Amortization of restricted stock..... | | | | | |
| BALANCE AT DECEMBER 31, 2001..... | \$35,031,138 | \$ 0 | \$(37,547,201) | \$ (786,480) | \$(5,822,000) |

See notes to consolidated financial statements.

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METATEC INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | YEARS ENDED DECEMBER 31, | | |
|--|--------------------------|----------------|---------------|
| | 2001 | 2000 | 1999 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net loss..... | \$(29,973,839) | \$(17,532,618) | \$(2,846,290) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization..... | 10,657,859 | 14,525,737 | 14,346,593 |
| Write-down of fixed assets and goodwill..... | 15,466,456 | 15,637,642 | 0 |
| Deferred income tax expense (benefit)..... | 692,107 | (326,071) | (1,691,000) |
| Tax benefit from stock options exercised..... | 0 | 10,000 | 4,000 |
| Net (gain) loss on sales of property, plant and equipment..... | 816,802 | (139,879) | (62,094) |
| Changes in assets and liabilities: | | | |
| Accounts receivable..... | 3,027,769 | 5,326,390 | 606,178 |
| Inventory..... | 885,858 | 673,818 | (535,012) |
| Prepaid expenses and other assets..... | 296,248 | 278,908 | 105,334 |
| Accounts payable and accrued expenses..... | 3,309,267 | (3,719,477) | 708,606 |
| Unearned income..... | (30,894) | 48,933 | 57,617 |
| Net cash provided by operating activities..... | 5,147,633 | 14,783,383 | 10,693,932 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property, plant and equipment..... | (1,586,647) | (5,060,166) | (21,371,106) |
| Proceeds from the sales of property, plant and equipment..... | 53,990 | 314,893 | 267,668 |
| Net cash used for acquisitions..... | 0 | 0 | (314,212) |
| Net cash used in investing activities..... | (1,532,657) | (4,745,273) | (21,417,650) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Increase in long-term debt and capital lease obligations..... | 40,450,449 | 4,139,597 | 33,595,339 |
| Payment of long-term debt and capital lease obligations..... | (44,154,272) | (14,099,986) | (23,680,182) |
| Stock options exercised..... | 0 | 32,000 | 11,213 |

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| | | | |
|---|----------------|--------------|--------------|
| Net cash provided (used) by financing activities..... | (3,703,823) | (9,928,389) | 9,926,370 |
| Effect of exchange rate on cash..... | (16,197) | 280,623 | (63,989) |
| Increase (decrease) in cash and cash equivalents..... | (105,044) | 390,344 | (861,337) |
| Cash and cash equivalents at beginning of year..... | 2,086,228 | 1,695,884 | 2,557,221 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR..... | \$ 1,981,184 | \$ 2,086,228 | \$ 1,695,884 |
| SUPPLEMENTAL CASH FLOW DISCLOSURES: | | | |
| Interest paid..... | \$ 3,352,231 | \$ 4,250,213 | \$ 3,950,812 |
| Income taxes paid (refunded)..... | \$ (667,375) | \$ (837,228) | \$ 34,249 |
| Assets purchased for the assumption of liabilities..... | \$ 33,462 | \$ 237,738 | \$ 1,452,313 |
| Gain on termination of forward contracts..... | \$ 948,461 | \$ 0 | \$ 0 |
| Assets sold for the assumption of receivable..... | \$ 1,000,000 | \$ 0 | \$ 41,993 |
| Termination of capital lease..... | \$ 1,160,742 | \$ 0 | \$ 0 |
| Note payable issued for capital lease termination..... | \$ (1,228,347) | \$ 0 | \$ 0 |

See notes to consolidated financial statements.

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation -- The consolidated financial statements include the accounts of Metatec International, Inc., an Ohio corporation, and its wholly owned subsidiaries (the "Company" or "Metatec"). All significant intercompany accounts and transactions have been eliminated. Metatec's subsidiaries maintain separate financial statements.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Management believes those estimates and assumptions utilized in preparing the financial statements are reasonable. Actual results could differ from these estimates.

Nature of Operations -- The operations of the Company are in the information industry primarily providing optical disc manufacturing, packaging and distribution for specific customers, primarily in North America and Europe. The Company maintains one manufacturing, sales, distribution and development facility in the United States and one in Europe. The revenues from product sales are recognized at the time the products are shipped. During 2000, the Company began to shift its focus to supply chain solution services with its core CD-ROM manufacturing capabilities serving as a component of the supply chain.

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The Company incurred net losses of approximately \$29,974,000, \$17,533,000 and \$2,846,000 in 2001, 2000 and 1999, respectively. Included in the losses are non-recurring charges resulting from the impairment of goodwill and long-lived assets and restructuring charges totaling approximately, \$20,576,000, \$16,112,000 and \$1,051,000 in 2001, 2000 and 1999, respectively. Also, as of December 31, 2001, the Company had a shareholders' deficiency of \$9,145,000. However, the Company generated positive cash flows from operations in each of these years. Additionally, the Company successfully amended certain terms and financial covenants of its Bank Credit Facilities, extending the maturity date to 2004. Management believes that the Company's current focus on its core business customers, and continued cost saving measures will allow it to generate sufficient cash flows to meet operational needs in 2002.

Cash and Cash Equivalents -- Cash and cash equivalents consist of highly liquid instruments such as certificates of deposit, time deposits, treasury notes and other money market instruments which generally have maturities of less than three months. The carrying amounts reported in the balance sheets approximate fair value. The Company holds cash primarily in one financial institution.

Inventory -- Inventory consists primarily of raw materials and spare parts and is valued at the lower of cost or market with cost determined by the first-in, first-out method.

Property, Plant and Equipment -- Property, plant and equipment are recorded at cost. The cost of maintenance and repairs is charged against results of operations as incurred. Property, plant and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets which range from three to thirty years. For income tax purposes, accelerated methods are used for all eligible assets.

Goodwill -- Goodwill represented the excess of cost over net assets acquired and was amortized using the straight-line method over estimated useful lives ranging from 10 to 15 years. In accordance with the Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets," at each balance sheet date, a determination is made by management to ascertain whether goodwill and other long-lived assets have been impaired based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors. At the end of 2001, management determined that certain assets were impaired (See Note 2). Accumulated amortization was \$5,810,929 at December 31, 2000.

Income Taxes -- The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which uses the liability method to calculate deferred income taxes. This standard requires, among other things, recognition of future tax benefits, measured by enacted tax rates, attributable to deductible

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

temporary differences between the financial statement basis and income tax basis of assets and liabilities and net operating loss carry forwards to the extent realization is more likely than not.

Advertising -- The Company expenses advertising costs as incurred. Advertising expense was \$122,341, \$10,153 and \$8,711 for 2001, 2000 and 1999, respectively.

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Net Loss Per Common Share -- Basic net loss per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed similarly but includes the dilutive effect of stock options. During 2001, 2000 and 1999, the effect of stock options was anti-dilutive.

Comprehensive Income (Loss) -- SFAS No. 130, "Reporting Comprehensive Income" requires the reporting and display of comprehensive income (loss) and its components for all years presented. The Company had other comprehensive loss related to foreign currency translation adjustments of \$311,579 in 2001, and \$199,697 in 2000. During November, 2001, the Company terminated its forward contracts. The related gain of \$948,461 is shown as an offset to other comprehensive income and is being accreted to net income over the remaining life of the original contracts.

Financial Instruments -- The Company entered into a series of forward contracts (against the Euro and U.S. Dollar) to hedge an intercompany note between the Company and its European subsidiary. The Company is not a party to leveraged derivatives and does not hold or issue financial instruments for speculative purposes. The purpose of the Company's hedging is to protect it from the risk that the eventual functional currency inflows resulting from the intercompany payments will be adversely affected by changes in exchange rates. The forward contracts were designed to correspond with the repayment schedule contained within the intercompany note. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by the value of the underlying exposures being hedged. During the fourth quarter of 2001, the above noted forward contracts were terminated. The Company realized a gain on the termination of these contracts of \$948,461 which was used to pay down an operating lease with one of its lenders. This gain was recorded in other comprehensive income and is being accreted to net income over the remaining term of the intercompany note.

The Company does not carry any off balance sheet derivative financial instruments at December 31, 2001.

Foreign Currency Translation -- The assets and liabilities of the Company's subsidiaries outside the United States are translated into U.S. dollars at the rates of exchange in effect at the balance sheet dates. Income and expense items are translated at the average exchange rates prevailing during the period. Gains and losses resulting from foreign currency transactions are recognized currently in net income and those resulting from translation of financial statements are recognized currently in comprehensive income.

Impact of New Accounting Standards -- SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company adopted SFAS 133 effective January 1, 2001. The adoption of SFAS 133 did not have a significant impact on the financial position, results of operations, or cash flows of the Company.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, "Goodwill and Other Intangibles." SFAS 142 is effective for all fiscal years beginning after December 15, 2001, and requires changes in the amortization of certain goodwill and intangible assets, including an annual assessment of possible impairment. Management believes the adoption of this statement will have no impact on the Company's consolidated financial statements since the Company's goodwill was fully impaired at December 31, 2001 and written off.

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

In August 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." While this statement supercedes SFAS No. 121, "Accounting for Impairment of Long-Lived Assets to Be Disposed Of" it retains the fundamental provisions of SFAS No. 121 for recognition and impairments of assets to be held and used, and assets to be disposed of by sale. This statement is effective for the first quarter in the year ended December 31, 2002. Management does not expect the adoption of this statement to have a material effect on its consolidated financial statements.

2. IMPAIRMENT OF ASSETS AND RESTRUCTURING CHARGES

| DESCRIPTION | TERMINATION BENEFITS | EXIT/OTHER COSTS | LOSS ON WRITE-DOWN OF ASSETS | TOTAL |
|---------------------------------------|-------------------------|---------------------|------------------------------------|----------|
| ----- | ----- | ----- | ----- | ----- |
| | IN '000'S | | | |
| Provision 1999..... | \$ 488 | \$ 562 | | \$ 1,050 |
| Payments 1999..... | (199) | | | (199) |
| ----- | ----- | ----- | ----- | ----- |
| Accrued balance | | | | |
| December 31, 1999..... | \$ 289 | \$ 562 | | \$ 851 |
| Provision 2000..... | 475 | | 15,637 | 16,112 |
| Payments 2000..... | (764) | (412) | | (1,176) |
| Asset Write-offs 2000..... | | | (15,637) | (15,637) |
| ----- | ----- | ----- | ----- | ----- |
| Accrued balance | | | | |
| December 31, 2000..... | \$ -- | \$ 150 | \$ -- | \$ 150 |
| Provision 2001..... | 1,975 | 3,135 | 15,466 | 20,576 |
| Payments 2001..... | (607) | (184) | | (791) |
| Asset Write-offs 2001..... | | | (15,466) | (15,466) |
| ----- | ----- | ----- | ----- | ----- |
| Accrued balance | | | | |
| December 31, 2001..... | \$1,368 | \$3,101 | \$ -- | \$ 4,469 |
| ----- | ===== | ===== | ===== | ===== |
| Accrued Restructuring -- Current..... | \$ 802 | \$1,856 | \$ -- | \$ 2,658 |
| | ===== | ===== | ===== | ===== |

During 2001, the Company made decisions to reduce selling, general and administrative expenses by restructuring its support services through workforce reductions in Dublin, Ohio ("Dublin"); Milpitas, California ("Silicon Valley"); and Breda, The Netherlands ("Breda") facilities.

Additional restructuring charges were incurred during the fourth quarter of 2001, related to the closure of the Company's Silicon Valley facility. In relation to this restructuring, the Company completed the sale of its manufacturing assets associated with Silicon Valley and terminated the lease on this facility, all of which was effective December 31, 2001. In exchange for its agreement to terminate the lease, the landlord received a \$1.5 million unsecured, non-interest bearing promissory note (discounted to \$1,228,349 at 8.5%) due in four equal installments beginning in January 2003, approximately \$1.1 million in cash, and 300,000 shares of the Company's common stock (See Note 4). In addition, the Company took a write-off related to the closing of two

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sales offices during 2001.

In December 2001, a determination was made by management that goodwill and specific fixed assets associated with the Company's Dublin and Breda operations were impaired. This decision was based upon an analysis of expected future cash flows and required a writedown of these assets. Accordingly, a writedown of goodwill (\$3,838,548) and fixed assets (\$9,172,764) totaling \$13,011,312, was recorded using discounted future cash flows to estimate fair value. In addition, management made the decision that certain modules of the Company's ERP system which were under development would not be completed and implemented, resulting in a write-off of \$2,455,144.

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

During the first quarter of 2000, the Company made a decision to reduce selling, general and administrative expenses by restructuring its support services through a workforce reduction in Dublin and in Silicon Valley facilities. At that time the Company incurred a restructuring charge of \$430,561 primarily for severance and termination benefits. During the fourth quarter of 2000, the Company made another workforce reduction at the Silicon Valley facility resulting in a restructuring charge of \$44,084 primarily for severance and termination benefits.

At the end of 2000, a determination was made by management that goodwill and specific fixed assets associated with the Company's Silicon Valley operations, which were acquired from Imation Corporation ("Imation") in September 1998, were impaired. This decision was based upon an analysis of expected future cash flows and required a writedown of these assets. Accordingly, a writedown of goodwill (\$11,695,618) and fixed assets (\$3,942,024) totaling \$15,637,642, was recognized using discounted future cash flows to estimate fair value.

During the fourth quarter of 1999, the Company made a decision to close its Menomonie, Wisconsin client services center. As a result of this action, the Company incurred restructuring charges of \$488,255 primarily for severance and termination benefits. In addition, the Company relocated its California facility from Fremont to Silicon Valley during 1999, causing the Company to incur restructuring charges of \$562,467. These costs related primarily to estimated lease costs, net of estimated sub-lease rentals of \$1,067,000, which will be incurred during the remainder of the Fremont lease term to 2003.

3. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31:

| | 2001 | 2000 |
|--|--------------|--------------|
| | ----- | ----- |
| Land..... | \$ 2,579,787 | \$ 2,579,787 |
| Buildings and improvements..... | 22,481,432 | 29,839,604 |
| Machinery and equipment..... | 40,876,217 | 51,583,135 |
| Furniture and fixtures..... | 4,402,960 | 6,138,325 |
| Computer equipment and related software..... | 9,561,582 | 11,455,271 |
| Equipment installation..... | 0 | 2,860,754 |
| | ----- | ----- |
| Total..... | 79,901,978 | 104,456,876 |

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| | | |
|---|---------------|---------------|
| Less accumulated depreciation and impairment..... | (50,520,317) | (54,001,559) |
| | ----- | ----- |
| Net property, plant and equipment..... | \$ 29,381,661 | \$ 50,455,317 |
| | ===== | ===== |

4. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long-term debt and capital lease obligations consisted of the following at December 31:

| | 2001 | 2000 |
|---|--------------|--------------|
| | ----- | ----- |
| Term debt..... | \$ 9,835,488 | \$14,958,000 |
| Revolving line of credit..... | 9,095,953 | 7,500,000 |
| Real estate financing..... | 18,685,285 | 18,793,796 |
| Fleming Business Park..... | 1,228,349 | 0 |
| Capital lease obligations..... | 60,038 | 1,289,534 |
| | ----- | ----- |
| Total..... | 38,905,113 | 42,541,330 |
| Less current maturities..... | (182,875) | (7,148,115) |
| | ----- | ----- |
| Long-term debt and capital lease obligations..... | \$38,722,238 | \$35,393,215 |
| | ===== | ===== |

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's banks have provided a \$37,000,000 term loan facility and a \$13,000,000 revolving loan facility to the Company (the "Credit Facilities"). The term loan facility and a portion of the revolving loan facility were used to finance the 1998 Imation asset purchase. As of December 31, 2001, \$9,326,250 and \$9,605,191 was outstanding under the term loan facility and the revolving loan facility, respectively. The Company was not in compliance with certain of its financial and other covenants as of December 31, 2001.

On February 8, 2002, the Company entered into an amended and restated loan agreement (the "Amended Loan Agreement") with its banks which replaced the Company's prior agreement with its banks. Under the Amended Loan Agreement, the Credit Facilities consist of three separate loans: (1) an asset based revolving loan facility with a borrowing base as described below; (2) a term loan facility in the principal amount of \$9,326,250; and (3) a second term loan facility in the original principal amount of \$509,238, which principal amount may be increased up to \$1,000,000 by advances made to the Company through December 31, 2002. The borrowing base of the revolving loan facility is limited to the lesser of (i) \$12,490,762, or (ii) the sum of (A) 80% of eligible domestic accounts receivable, plus (B) 30% of eligible domestic inventory, plus (C) 90% of domestic machinery and equipment. The borrowing base is further reduced by the aggregate amount of the Company's outstanding letters of credit and is permanently reduced by the amount of any additional advances made to the company under the second term loan facility.

The revolving loan and the term loans mature on April 1, 2004. Quarterly principal payments are required, beginning in June 2002 if cash flow, as defined, exceeds certain predetermined targets. The Credit Facilities are

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secured by a first lien on all non-real estate business assets of the Company and a pledge of the stock of the Company's subsidiaries. The Company is required to comply with the financial and other covenants contained in the Amended Loan Agreement. The revolving loan and the term loans accrue interest at a rate equal to 3.5% in excess of the prime rate of the banks. Certain fees are required to be paid to the banks in connection with the Credit Facilities.

The Company has a \$19,000,000 term loan facility which was used to permanently finance the Company's Dublin, Ohio distribution center completed in 1999 and to pay down other bank debt. The loan facility has an outstanding principal balance of \$18,685,285 as of December 31, 2001. This term loan facility is payable in monthly principal and interest payments based upon a thirty year amortization schedule, bears interest at a fixed rate of 8.2%, and matures on September 1, 2009. This loan facility is secured by a first lien on all real property of the Company and letters of credit in favor of the lender, in an aggregate amount of \$1,650,000.

The Company entered into a \$1,500,000 long-term note with its former landlord, Fleming Business Park, effective December 31, 2001 (See Note 2). This is an unsecured, non-interest bearing note which was discounted at 8.5%, due in four equal annual installments beginning in January 2003.

The estimated fair value of the Company's long-term obligations approximated their carrying amount at December 31, 2001 and 2000, based on current market prices for the same or similar issues.

The terms of the Company's credit facilities prohibit it from paying cash dividends or making any other distributions to shareholders without the prior consents of the administrative agent of these credit facilities.

Total long-term debt maturities from 2002 to 2006, assuming no additional principal payments based on excess cashflow are as follows: \$182,875, \$464,111, \$19,417,800, \$519,975, \$565,040 respectively, and \$17,755,312 thereafter.

5. LEASES

At December 31, 2001, the Company leased \$77,729 of office equipment with related accumulated depreciation of \$18,234, under non-cancelable capital lease agreements expiring at various dates through 2004. Maintenance, insurance, and tax expenses are the responsibility of the Company under the agreements.

Operating lease expense was \$1,921,966, \$2,229,479 and \$3,126,464 for 2001, 2000 and 1999, respectively.

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The future annual minimum lease payments under all capital leases, together with the present value of the minimum lease payments, and the future minimum rental payments required under all operating leases that have initial or remaining lease terms in excess of one year are as follows:

| | CAPITAL LEASES | OPERATING LEASES |
|--------------------------|----------------|------------------|
| Year ending December 31: | | |
| 2002..... | \$29,782 | \$511,193 |
| 2003..... | 24,198 | 229,240 |

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| | | |
|--|----------|-----------|
| 2004..... | 11,837 | 107,157 |
| | ----- | ----- |
| Total minimum lease payments..... | 65,817 | \$847,590 |
| | ===== | ===== |
| Less amount representing interest..... | (5,779) | |
| | ----- | |
| Present value of net minimum payments..... | \$60,038 | |
| | ===== | |

6. COMMITMENTS AND CONTINGENCIES

Self-Insurance -- The Company is self-insured with respect to medical and dental claims for United States employees. The Company has obtained stop-loss insurance for claims in excess of \$100,000 per individual per year and \$1,000,000 lifetime maximum per individual. The Company has recorded an estimated liability for self-insured claims incurred but not reported at December 31, 2001 and 2000 of \$270,000 and \$350,000, respectively. The Company is also self-insured with respect to short term disability claims.

Litigation -- The Company and numerous other parties have been named as defendants in a court proceeding filed in the United States District Court for the District of Arizona by the plaintiff, Lemelson Medical, Education & Research Foundation, Limited Partnership. In that court proceeding, the plaintiff is alleging that the defendants have infringed upon certain patents that allegedly are enforceable by the plaintiff. This court proceeding has been stayed pending the outcome of parallel litigation in Nevada that is challenging the validity of plaintiff's patents. At this time, the Company is unable to determine the likelihood of the outcome of either the Arizona or Nevada proceedings or whether an unfavorable outcome will be material to the Company.

The Company is involved in various legal claims arising from the normal course of business. While the ultimate liability, if any, from these proceedings is presently indeterminable, in the opinion of management, these matters should not have a material adverse effect on the consolidated financial statements of the Company.

METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

7. INCOME TAXES

The components of income tax expense (benefit) were as follows:

| | 2001 | 2000 | 1999 |
|--------------------|--------------|--------------|------------|
| | ----- | ----- | ----- |
| Federal: | | | |
| Current..... | \$ (472,000) | \$ (638,000) | \$ 132,000 |
| Deferred..... | 89,000 | 9,000 | (909,000) |
| | ----- | ----- | ----- |
| Total Federal..... | (383,000) | (629,000) | (777,000) |
| | ----- | ----- | ----- |
| State and Local: | | | |
| Current..... | (93,000) | 72,000 | 444,000 |
| Deferred..... | 741,000 | (230,000) | (618,000) |
| | ----- | ----- | ----- |

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| | | | |
|----------------------------|-----------|--------------|----------------|
| Total State and Local..... | 648,000 | (158,000) | (174,000) |
| Foreign | | | |
| Current..... | 9,000 | (21,000) | (205,000) |
| Deferred..... | (232,000) | (22,000) | (164,000) |
| | ----- | ----- | ----- |
| Total Foreign..... | (223,000) | (43,000) | (369,000) |
| | ----- | ----- | ----- |
| Total..... | \$ 42,000 | \$ (830,000) | \$ (1,320,000) |
| | ===== | ===== | ===== |

Total loss before income tax expense in 2001 was comprised of \$4,025,587 in foreign losses and \$25,906,252 in domestic losses. Total loss before income tax benefit in 2000 was comprised of \$167,475 in foreign losses and \$18,195,143 in domestic losses. Total loss before income tax benefit in 1999 was comprised of \$732,584 in foreign losses and \$3,433,706 in domestic losses.

Significant differences between income tax expense (benefit) recorded for financial reporting purposes and income taxes (benefit) calculated using the Federal statutory rate of 34% are as follows:

| | 2001 | 2000 | 1999 |
|--|-----------------|----------------|----------------|
| | ----- | ----- | ----- |
| Tax benefit at statutory rate..... | \$ (10,177,000) | \$ (6,244,000) | \$ (1,417,000) |
| State and local tax expense (benefit), net of federal benefit..... | 428,000 | (104,000) | 114,000 |
| Non deductible goodwill..... | 153,000 | 161,000 | 156,000 |
| Change in valuation reserve..... | 9,605,000 | 5,317,000 | 0 |
| Other..... | 33,000 | 40,000 | 55,000 |
| | ----- | ----- | ----- |
| Total..... | \$ 42,000 | \$ (830,000) | \$ (1,320,000) |
| | ===== | ===== | ===== |

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred income taxes recorded in the consolidated balance sheets at December 31, 2001 and 2000 consisted of the following:

| | 2001 | 2000 |
|---------------------------------------|--------------|-------------|
| | ----- | ----- |
| Deferred tax assets: | | |
| State tax credit (expires 2005)..... | \$ 595,000 | \$ 687,000 |
| Allowance for doubtful accounts..... | 139,000 | 116,000 |
| Net operating loss carryforwards..... | 8,419,000 | 7,188,000 |
| Restructuring charges..... | 1,684,000 | 0 |
| Impaired assets..... | 6,974,000 | 0 |
| Depreciation..... | 1,692,000 | 0 |
| Accrued medical insurance..... | 120,000 | 156,000 |
| Foreign currency..... | 0 | 94,000 |
| Other..... | 459,000 | 360,000 |
| Valuation allowance..... | (19,729,000) | (5,317,000) |

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| | | |
|---|---------|------------|
| Total deferred tax assets..... | 353,000 | 3,284,000 |
| Deferred tax liabilities: | | |
| Depreciation..... | 0 | 2,047,000 |
| Prepaid expenses..... | 174,000 | 177,000 |
| Foreign currency..... | 162,000 | 0 |
| Other..... | 17,000 | 368,000 |
| Total deferred tax liabilities..... | 353,000 | 2,592,000 |
| Net deferred tax asset (liability)..... | \$ 0 | \$ 692,000 |

The Company has available net operating loss carry forwards for tax purposes of approximately \$17,830,000 expiring through 2016. The Company also has available certain net operating loss carry forwards for tax purposes of approximately \$216,000 which expire in 2005 which may only be used to offset certain operations of the Company. On March 9, 2002, the President signed the Job Creation and Worker Assistance Act of 2002 into law. This law extended the carry back period from two years to five years for net operating losses arising in the 2001 and 2002 taxable years. The Company will record a benefit of approximately \$710,000 in 2002 related to this law.

A valuation allowance has been provided to offset the net deferred tax assets due to the uncertainty surrounding the realizability of such assets.

At December 31, 2001 there were no unremitted earnings of subsidiaries outside the United States, due to cumulative net losses in these subsidiaries. Accordingly, no deferred income taxes for additional United States federal income taxes from the distribution of foreign earnings is required.

8. BENEFIT PLANS

Substantially all U.S. associates are enrolled in a Company-sponsored defined contribution plan established under Section 401(k) of the Internal Revenue Code. The Company's contribution under the plan was approximately \$342,010, \$641,900 and \$703,300 for 2001, 2000 and 1999, respectively. During 2001, the Company's contribution remained at 75% of the associate's contribution up to a maximum of 5% of the associate's annual compensation. The funds are invested in mutual funds.

The Company initiated a performance sharing plan (Open Book Management Plan) for employees during 1998. All employees are eligible for this plan after a six-month waiting period. Each employee is assigned points at the beginning of the year, and these points pay quarterly bonuses based on actual results as compared to planned results. No performance sharing was recorded or distributed for the year 2001 or 2000. The Company

METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

recorded \$427,028 in performance sharing bonuses earned for 1999, of which \$357,674 was paid as of December 31, 1999, with the remainder paid in 2000.

9. STOCK OPTION PLANS

The Company has a 1999 Directors' Stock Option Plan (the "1999 Directors

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Plan") under which a maximum of 300,000 common shares may be issued. The 1999 Directors Plan replaced the Company's 1992 Directors' Stock Option Plan, and no additional options will be issued under the 1992 plan. The 1999 Directors Plan automatically grants 5,000 options to each non-employee director immediately following the Company's annual meeting of shareholders. These options are fully vested on the grant date. In addition, for each non-employee director, when they first become a director, the 1999 Directors Plan automatically grants 10,000 one-time options. These one-time options vest in equal installments over a four year period. As of December 31, 2001, there have been 100,000 options granted under the 1999 Directors Plan, none of which were forfeited, none of which were exercised, and all but 17,500 were exercisable. As of December 31, 2001, there have been 164,925 options granted under the 1992 Director's Stock Option Plan, 110,080 of which were forfeited, 22,345 of which were exercised and 32,500 of which are exercisable.

The option price of shares subject to an option for the directors stock option plans is the fair market value of the shares at the time the option is granted. No options issued are exercisable after five years from the date of grant.

The Company has a 1990 Stock Option Plan under which a maximum of 1,610,000 Common Shares may be issued. This Plan is available to all full time employees of the Company or its subsidiary corporations and, in the case of non-qualified options, directors of subsidiaries of the Company (other than directors of such subsidiaries who are also directors of the Company). As of December 31, 2001, there have been 2,673,725 options granted under this plan, 1,305,300 of which were forfeited, 261,950 of which were exercised and 702,550 of which are exercisable.

The Company's Compensation Committee has the authority to grant incentive options and non-qualified options. Only officers and other key employees of the Company or its subsidiary corporations are eligible for grants of incentive options.

At December 31, 2001, no incentive options had been granted. Both incentive and non-qualified options vest over a period of from one to four years from the date of grant, and are not exercisable after 10 years from the date of grant. The option price of both incentive options and non-qualified options is equal to the fair market value of the shares at the time the options are granted.

The following summarizes all stock option transactions from January 1, 1999 through December 31, 2001:

| | SHARES | PER SHARE OPTION PRICE | WEIGHTED AVERAGE EXERCISE PRICE |
|---------------------------------------|-----------|---------------------------|------------------------------------|
| | ----- | ----- | ----- |
| Outstanding at December 31, 1998..... | 1,062,075 | \$1.50 to \$12.88 | \$5.58 |
| Granted..... | 299,500 | \$3.00 to \$ 6.63 | \$5.02 |
| Exercised..... | (3,875) | \$1.50 to \$ 4.38 | \$2.89 |
| Terminated..... | (84,875) | \$4.38 to \$11.58 | \$8.82 |
| | ----- | | |
| Outstanding at December 31, 1999..... | 1,272,825 | \$1.50 to \$12.88 | \$5.24 |
| Granted..... | 305,300 | \$1.03 to \$ 3.19 | \$2.58 |
| Exercised..... | (20,500) | \$1.50 to \$ 1.75 | \$1.56 |
| Terminated..... | (380,400) | \$3.00 to \$ 6.00 | \$4.99 |
| | ----- | | |
| Outstanding at December 31, 2000..... | 1,177,225 | \$1.03 to \$12.88 | \$4.67 |
| Granted..... | 181,375 | \$0.77 to \$ 1.31 | \$0.98 |
| Terminated..... | (119,625) | \$2.50 to \$12.88 | \$4.87 |

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| | | | |
|---------------------------------------|-----------------------------|-------------------|--------|
| Outstanding at December 31, 2001..... | ----- 1,238,975 ===== | \$0.77 to \$11.50 | \$4.13 |
|---------------------------------------|-----------------------------|-------------------|--------|

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following presents information for common shares exercisable as of December 31:

| | 2001 | 2000 | 1999 |
|--------------------------------------|---------|---------|---------|
| | ----- | ----- | ----- |
| Weighted Average Exercise Price..... | \$ 5.00 | \$ 5.52 | \$ 5.56 |
| | ===== | ===== | ===== |
| Common Shares Exercisable..... | 817,550 | 694,719 | 660,500 |
| | ===== | ===== | ===== |

The following table summarizes information about options outstanding at December 31, 2001:

| OPTIONS OUTSTANDING | | | OPTIONS EXERCISABLE | | |
|--------------------------|-----------|---|---------------------------------|---------|----------|
| RANGE OF EXERCISE PRICES | NUMBER | WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE | WEIGHTED-AVERAGE EXERCISE PRICE | NUMBER | WEIG EXE |
| ----- | ----- | ----- | ----- | ----- | ----- |
| \$0.77 - \$1.03 | 165,000 | 8.3 | \$ 0.94 | 31,250 | |
| \$1.19 - \$1.75 | 21,375 | 6.8 | \$ 1.25 | 0 | |
| \$2.50 - \$3.19 | 285,300 | 7.8 | \$ 2.63 | 92,575 | |
| \$3.88 - \$5.31 | 396,600 | 6.0 | \$ 4.70 | 323,025 | |
| \$5.88 - \$6.63 | 370,000 | 5.7 | \$ 6.17 | 370,000 | |
| \$11.50 | 700 | 2.3 | \$11.50 | 700 | |
| | ----- | | | ----- | |
| | 1,238,975 | | \$ 4.11 | 817,550 | |
| | ===== | | | ===== | |

The weighted average fair value per share of options granted during 2001, 2000 and 1999 were \$0.98, \$2.58 and \$5.02, respectively.

At December 31, 2001 options for 200,000 and 211,575 common shares (total of 411,575) were reserved for future grant under the 1999 Directors Plan and the 1990 Stock Option Plan, respectively.

The Company applies APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for its stock option plans. Had compensation costs for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123, the Company's net loss) and net loss per common share, net of related income tax benefits, would have resulted in the amounts as reported

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below. In determining the estimated fair value of each option granted on the date of grant, the Company uses the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in the years ended December 31, 2001, 2000 and 1999, respectively: dividend yield of 0%; expected volatility of 85.19%, 83.16% and 62%; risk-free interest rates based on the constant maturity rates for Treasuries that mature in accordance with the vesting period of the options granted.

| | 2001 ----- | 2000 ----- | 1999 ----- |
|------------------------|-----------------|-----------------|----------------|
| Net loss -- | | | |
| As reported..... | \$ (29,973,839) | \$ (17,532,618) | \$ (2,846,290) |
| Pro forma..... | \$ (29,989,447) | \$ (17,665,757) | \$ (3,116,219) |
| Loss per share -- | | | |
| As reported | | | |
| Basic and diluted..... | \$ (4.88) | \$ (2.88) | \$ (0.47) |
| Pro forma -- | | | |
| Basic and diluted..... | \$ (4.89) | \$ (2.90) | \$ (0.51) |

The pro forma amounts are not representative of the effects on reported net earnings or earnings per common share for future years.

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

10. SEGMENT, GEOGRAPHIC AND CUSTOMER INFORMATION

SFAS 131, "Disclosures About Segments of an Enterprise and Related Information" established revised standards for public companies relating to the reporting of financial information about operating segments. In accordance with SFAS No. 131, the Company has determined that it has one reportable segment. However, the Company does operate in two primary geographic areas and two classes of products.

Revenues are attributed to specific geographical areas based on origin of order generation. Geographic information for the years ended December 31 are as follows:

| | U.S. ----- | EUROPE ----- |
|------------------------|---------------|-----------------|
| 2001 | | |
| Sales..... | \$ 67,514,000 | \$ 9,768,000 |
| Long-lived assets..... | \$ 28,940,000 | \$ 611,000 |
| 2000 | | |
| Sales..... | \$ 92,856,000 | \$11,375,000 |
| Long-lived assets..... | \$ 50,836,000 | \$ 4,547,000 |
| 1999 | | |
| Sales..... | \$107,644,000 | \$12,637,000 |
| Long-lived assets..... | \$ 76,267,000 | \$ 6,075,000 |

Revenues attributed to product types are distinguished as CD-ROM sales and

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other sales. Information for the years ended December 31 are as follows:

| | CD-ROM | OTHER PRODUCTS |
|------------|---------------|----------------|
| 2001 | | |
| Sales..... | \$ 71,667,000 | \$ 5,615,000 |
| 2000 | | |
| Sales..... | \$ 97,790,000 | \$ 6,441,000 |
| 1999 | | |
| Sales..... | \$112,749,000 | \$ 7,532,000 |

No customer accounted for greater than 10% of net sales for any of the three years in the period ended December 31, 2001.

11. CONSOLIDATED QUARTERLY FINANCIAL DATA (UNAUDITED)

| QUARTER ENDED | MARCH 31 | JUNE 30 | SEPTEMBER 30 | DECEMBER 31 |
|--------------------------------------|--------------|--------------|--------------|--------------|
| 2001 | | | | |
| Net Sales..... | \$21,048,545 | \$18,861,865 | \$17,478,841 | \$19,892,754 |
| Gross Profit..... | 5,742,373 | 5,164,680 | 3,640,983 | 4,764,643 |
| Net Loss..... | (1,926,600) | (2,095,547) | (3,482,773) | (22,468,919) |
| Net Loss per common share: | | | | |
| Basic and diluted..... | \$ (0.31) | \$ (0.34) | \$ (0.57) | \$ (3.66) |
| 2000 | | | | |
| Net Sales..... | \$27,637,107 | \$26,178,157 | \$26,351,076 | \$24,064,708 |
| Gross Profit..... | 8,158,795 | 7,318,880 | 6,908,390 | 6,947,308 |
| Net Earnings(loss)..... | (168,239) | 70,200 | (886,626) | (16,547,953) |
| Net Earnings(loss) per common share: | | | | |
| Basic and diluted..... | \$ (0.03) | \$ 0.01 | \$ (0.15) | \$ (2.71) |

The quarter ended March 31, 2001 and September 30, 2001, included restructuring charges of \$109,564 and \$415,577 respectively. The quarter ended December 31, 2001 included a \$20,050,814 charge of which

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METATEC INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

\$13,011,312 represents the write down of goodwill and long-lived assets associated with the Dublin and Breda facilities. The remainder consisted of costs associated with the closure of the Company's Silicon Valley facility and severance and termination costs related to the Dublin facility.

The quarter ended March 31, 2000, included \$430,561 of restructuring charges. The quarter ended December 31, 2000 included a \$15,681,726 charge of which \$15,637,642 represents the write down of goodwill and long-lived assets associated with the Imation purchase of Silicon Valley assets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Information required under this Item with respect to directors will be contained in the Company's proxy statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, and is hereby incorporated herein by reference. Information regarding the executive officers of the Company may be found under the caption "Executive Officers of the Company" in Part I and is also incorporated by reference into this Item 10.

ITEM 11. EXECUTIVE COMPENSATION

Information required under this Item will be contained in the Company's proxy statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, and is hereby incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required under this Item will be contained in the Company's proxy statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, and is hereby incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required under this Item will be contained in the Company's proxy statement to be filed with the Securities and Exchange Commission within 120 days of December 31, 2001, and is hereby incorporated herein by reference.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The following financial statements of the Company are included in Item 8:

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2001, 2000 and 1999

Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000 and 1999

Notes to Consolidated Financial Statements

Independent Auditors' Report

(a)(2) Financial Statement Schedules

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The financial statement schedule for the years ended December 31, 2001, 2000 and 1999 is included in this report following the signatures and should be read in conjunction with the Consolidated Financial Statements included in Item 8:

Schedule II -- Consolidated Valuation and Qualifying Accounts and Reserves

All other financial statement schedules have been omitted because they are not applicable or the required information is included in the Company's consolidated financial statements or notes thereto.

(a) (3) Listing of Exhibits

| EXHIBIT NO. ----- | DESCRIPTION OF EXHIBIT ----- | IF INCORPORATED BY REFERENCE, DOCUMENT WITH WHICH EXHIBIT WAS PREVIOUSLY FILED WITH SEC ----- |
|-------------------------|---|--|
| 3 (a) | Amended and Restated Articles of Incorporation of Metatec International, Inc. | Registration Statement on Form S-8 File No. 333-03125 (see Exhibit 4 (therein)). |
| 3 (b) | Code of Regulations of Metatec International, Inc. | Registration Statement on Form S-8 File No. 333-03125 (see Exhibit 4 (therein)). |
| 4 | Form of Share Certificate | Registration Statement on Form S-8 File No. 333-03125 (see Exhibit 4 (therein)). |
| 10 (a) * | Amended and Restated Employment Agreement dated March 23, 1993, between Metatec International, Inc. and Jeffrey M. Wilkins | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (See Exhibit 10(h) therein). |
| 10 (b) * | First Amendment to Amended and Restated Employment Agreement dated March 21, 1996, between Metatec International, Inc. and Jeffrey M. Wilkins | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (See Exhibit 10(c) therein). |
| 10 (c) * | Second Amendment to Amended and Restated Employment Agreement dated February 17, 1998, between Metatec International, Inc. and Jeffrey M. Wilkins | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(d) therein). |
| 10 (d) * | Metatec International, Inc. 1990 Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(k) therein). |

| EXHIBIT NO. ----- | DESCRIPTION OF EXHIBIT ----- | IF INCORPORATED BY REFERENCE, DOCUMENT WITH WHICH EXHIBIT WAS PREVIOUSLY FILED WITH SEC ----- |
|-------------------------|---------------------------------|--|
|-------------------------|---------------------------------|--|

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| | | |
|--------|--|--|
| 10(e)* | Amendment No. 1 to Metatec International, Inc. 1990 Stock Option Plan | Registration Statement on Form S-8 File No. 33-48022 (see Exhibit 4(d) therein). |
| 10(f)* | Amendment No. 2 to Metatec International, Inc. 1990 Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(k) therein). |
| 10(g)* | Amendment No. 3 to Metatec International, Inc. 1990 Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(g) therein). |
| 10(h)* | Amendment No. 4 to Metatec International, Inc. 1990 Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (See Exhibit 10(h) therein). |
| 10(i)* | Amendment No. 5 to Metatec International, Inc. 1990 Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (See Exhibit 10(I) therein). |
| 10(j)* | Amendment No. 6 to Metatec International, Inc. 1990 Stock Option Plan | Registration Statement on Form S-8 File No. 333-03125 (see Exhibit 4(d) therein). |
| 10(k)* | Metatec International, Inc. 1992 Directors' Stock Option Plan | Registration Statement on Form S-8 File No. 33-52700 (see Exhibit 4(c) therein). |
| 10(l)* | Amendment No. 1 to Metatec International, Inc. 1992 Directors' Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(i) therein). |
| 10(m)* | Amendment No. 2 to Metatec International, Inc. 1992 Directors' Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(k) therein). |
| 10(n)* | Amendment No. 3 to Metatec International, Inc. 1992 Directors' Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(i) therein). |
| 10(o)* | Amendment No. 4 to Metatec International, Inc. 1992 Directors' Stock Option Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(m) therein). |
| 10(p)* | Amendment No. 5 to Metatec International, Inc. 1992 Directors' Stock Option Plan | Registration Statement on Form S-8 File No. 333-31027 (see Exhibit 4(d) therein). |
| 10(q)* | Metatec International, Inc. 1999 Directors Stock Option Plan | Registration Statement on Form S-8 File No. 333-10442 (see Exhibit 4(d) therein). |
| 10(r)* | Metatec International, Inc. Directors Deferred Compensation Plan | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(p) therein). |
| 10(s) | Form of Indemnification Agreement between Metatec International, Inc. and each of its officers and directors | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(t) therein). |
| 10(t) | Patent License Agreement for Disc Products dated July 1, 1986, between Metatec/ Discovery Systems, Inc. and Discovision Associates | Amendment No. 1 to Registration Statement on Form S-1, File No. 33-60878 (see Exhibit 10(t) therein) |
| 10(u) | CD Disc License Agreement dated January 1, 1986, between U.S. Philips Corporation and Metatec/ Discovery Systems, Inc. | Amendment No. 1 to Registration Statement on Form S-1, File No. 33-60878 (see Exhibit 10(u) therein) |

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| EXHIBIT NO. ----- | DESCRIPTION OF EXHIBIT ----- | DOCUMENT WITH WHICH EXHIBIT WAS PREVIOUSLY FILED WITH SEC ----- |
|-------------------------|--|--|
| 10 (v) | Optical Disc Corporation NPR Technology License Agreement between Optical Disc Corporation and Metatec/Discovery Systems effective March 2, 1992 | Amendment No. 1 to Registration Statement on Form S-1, File No. 33-60878 (see Exhibit 10(v) therein) |
| 10 (w) | Second Amended and Restated Loan Agreement dated as of February 8, 2002, among Metatec International, Inc., Bank One, NA, The Huntington National Bank, other financial Institutions from time to time party thereto, as banks, and The Huntington National Bank, as administrative agent for the banks. | Current Report on Form 8-K dated February 14, 2002 (See Exhibit 10. therein). |
| 10 (x) | \$19.0 million Promissory Note and Mortgage, Assignment of Rents and Security Agreement, each dated July 28, 1999, between META Holdings, LLC and Huntington Capital Corp. | Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (see Exhibit 10(y) therein). |
| 10 (y) * | Employment Agreement dated November 22, 2000, between Metatec International, Inc. and Christopher A. Munro | Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (see Exhibit 10(z) therein). |
| 10 (z) * | First Amendment to Employment Agreement dated as of March 26, 2002, between Metatec International, Inc. and Christopher A. Munro. | Contained herein. |
| 10 (aa) * | Restricted Share Agreement Effective January 2, 2001, between Metatec International, Inc. and Christopher A. Munro. | Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (see Exhibit 10(aa) therein). |
| 10 (bb) * | First Amendment to Restricted Share Agreement dated as of March 26, 2002, between Metatec International, Inc. and Christopher A. Munro. | Contained herein. |
| 10 (cc) * | Separation Agreement and Release effective December 7, 2001, between Metatec International, Inc. and Jeffrey M. Wilkins. | Contained herein. |
| 10 (dd) * | Restricted Share Agreement dated as of February 13, 2002, between Metatec International, Inc. and Gary W. Qualmann. | Contained herein. |
| 21 | Subsidiaries of Metatec International, Inc. | Contained herein. |
| 23 | Consent of Deloitte & Touche LLP and Report on Schedule. | Contained herein. |
| 24 (a) | Powers of Attorney for Joseph F. Keeler, Jr., Peter J. Kight, David P. Lauer, Jerry D. Miller, James V. Pickett, Daniel D. Viren, and Jeffrey M. Wilkins. | Contained herein. |

 * Executive compensation plans and arrangements required to be filed pursuant to Item 601(b)(10) of Regulation S-K.

(b) Reports on Form 8-K

On December 3, 2001, the Company filed a Current Report on Form 8-K (dated November 20, 2001) under Item 5 reporting the event that the Company had entered into a standstill agreement between the Company and its banks following a default by the Company under its credit facilities.

(c) Exhibits

The exhibits in response to this portion of Item 14 are submitted following the signatures.

(d) Financial Statement Schedules

The financial statement schedule is submitted following the signatures.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

METATEC INTERNATIONAL, INC.

By /s/ CHRISTOPHER A. MUNRO

Christopher A. Munro
President and Chief Executive
Officer

Date: March 29, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant and in the capacities and on the dates indicated.

| SIGNATURE ----- | TITLE ----- | DATE ----- |
|---|---|---------------|
| /s/ CHRISTOPHER A. MUNRO ----- Christopher A. Munro | President and Chief Executive Officer (principal executive officer) | March 29, |

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| | | |
|--|---|-----------|
| /s/ GARY W. QUALMANN ----- Gary W. Qualmann | Chief Financial Officer (principal financial officer) | March 29, |
| /s/ JULIA A. POLLNER ----- Julia A. Pollner | Senior Vice President, Finance, Secretary, and Treasurer (principal accounting officer) | March 29, |
| /s/ PETER J. KIGHT* ----- Peter J. Kight | Director | March 29, |
| /s/ JERRY D. MILLER* ----- Jerry D. Miller | Director | March 29, |
| /s/ DAVID P. LAUER* ----- David P. Lauer | Director | March 29, |
| /s/ JAMES V. PICKETT* ----- James V. Pickett | Director | March 29, |
| /s/ JOSEPH F. KEELER, JR.* ----- Joseph F. Keeler, Jr. | Director | March 29, |
| /s/ DANIEL D. VIREN* ----- Daniel D. Viren | Director | March 29, |
| /s/ JEFFREY M. WILKINS* ----- Jeffrey M. Wilkins | Director | March 29, |

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*Christopher A. Munro, by signing his name hereto, does sign this document on behalf of the person indicated above pursuant to a Power of Attorney duly executed by such person.

By /s/ CHRISTOPHER A. MUNRO

March 29, 2002

Christopher A. Munro, Attorney In
Fact