PROQUEST CO
Form 10-Q
November 13, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter ended September 29, 2001	Commission file number 1-3246

PROQUEST COMPANY
(Exact Name of Registrant as Specified in its Charter)

Delaware	36-3580106
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
300 North Zeeb Road, Ann Arbor, Michigan	48103-1553
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code (734) 761-4700

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

The number of shares of the Registrant's Common Stock, $.001 par value, outstanding as of November 2, 2001 was 23,987,979.

TABLE OF CONTENTS

ProQuest Company and Subsidiaries
Consolidated Statements of Operations
(Dollars and shares in thousands, except per share data)
(Unaudited)

	Thirteen Week Ended	
	Sept. 29, 2001	Sep 2
Net sales	$ 98,617	$ 91
Cost of sales	(44,554)	(46
Research and development expense	(5,365)	(4
Selling and administrative expense	(32,951)	(28
Restructuring charges	-	(1
Gain on sales of assets	-	
Earnings from continuing operations before interest, income taxes, equity in loss of affiliate, and cumulative effect of a change in accounting principle	15,747	10
Net interest expense:		
Interest income	35	
Interest expense	(6,297)	(8
Net interest expense	(6,262)	(7
Earnings from continuing operations before income taxes, equity in loss of affiliate, and cumulative effect of a change in accounting principle	9,485	3

Income tax expense	(3,794)	(1
Equity in loss of affiliate	(1,802)	(5
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	3,889	(3
Discontinued Operations:		
Earnings from discontinued operations, net (less applicable income taxes of $534, $2,189, $1,937, and $2,684 respectively)	800	3
Gain (loss) on sales of discontinued operations, net (less applicable income taxes (benefit) of $(23,458), $0, $5,598, and $0 respectively)	(35,187)	
Cumulative effect of a change in accounting principle, net (less applicable income taxes benefit of $38,500)	-	
Net earnings (loss)	(30,498)	
Net earnings (loss) per common share:		
Basic:		
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	$ 0.16	$ (
Earnings from discontinued operations	0.03	
Gain (loss) on sales of discontinued operations	(1.47)	
Cumulative effect of a change in accounting principle	-	
Net earnings (loss) per basic common share	$ (1.28)	$ (
Diluted:		
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	$ 0.16	$ (
Earnings from discontinued operations	0.03	
Gain (loss) on sales of discontinued operations	(1.45)	
Cumulative effect of a change in accounting principle	-	
Net earnings (loss) per diluted common share	$ (1.26)	$ (
Average number of common shares and equivalents outstanding:		
Basic	23,865	23
Diluted	24,271	23

The accompanying Notes to the Consolidated Financial Statements
are an integral part of these statements

ProQuest Company and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands)
(Unaudited)

Assets

	Sept. 29, 2001	Dec. 20

Current assets:		
Cash and cash equivalents	$ 118,143	$ 1
Accounts receivable, net	105,246	7
Inventory	5,033	
Other current assets	17,091	1
Total current assets	245,513	10
Property, plant and equipment, at cost	434,650	40
Accumulated depreciation	(288,507)	(26
Net property, plant and equipment	146,143	13
Long-term receivables	23,717	
Goodwill and other intangible assets, net of accumulated amortization	221,750	22
Net assets of discontinued operations	-	26
Other assets	50,889	4
Total assets	$ 688,012	$ 76

Liabilities and Shareholders' Equity

Current liabilities:		
Notes payable	$ 2,487	$ 1
Current maturities of long-term debt	328	
Accounts payable	37,361	4
Accrued expenses	49,449	3
Deferred income	138,753	13
Total current liabilities	228,378	23
Long-term liabilities:		
Long-term debt, less current maturities	374,246	50
Long-term deferred income	61,041	6
Other liabilities	78,409	3
Total long-term liabilities	513,696	60
Shareholders' equity:		
Common Stock, $.001 par value, 24,381 shares issued and 23,939 shares outstanding at September 29, 2001 and 24,078 shares issued and 23,622 shares outstanding at December 30, 2000	24	
Capital surplus	163,515	15
Notes receivable from executives	(1,229)	(
Retained earnings (accumulated deficit)	(198,983)	(21
Treasury stock	(11,073)	(1
Other comprehensive income (loss):		
Accumulated foreign currency translation adjustment	952	
SFAS 133 unrealized gain (loss)	(7,268)	
Accumulated other comprehensive loss	(6,316)	
Total shareholders' equity (deficit)	(54,062)	(6
Total liabilities and shareholders' equity	$ 688,012	$ 76

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

ProQuest Company and Subsidiaries
Consolidated Statements of Cash Flows
(Dollars in thousands)
(Unaudited)

	Thirty-Nine Weeks	
	Sept. 29, 2001	Sept. 30, 2000
Operating activities:		
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle ...	$ 3,331	$ (9,306)
Adjustments to reconcile to cash used in operating activities of continuing operations:		
Depreciation and amortization	40,647	38,598
Equity in loss of affiliates	13,374	14,345
Gain on sales of assets	-	(2,751)
Changes in operating assets and liabilities:		
Accounts receivable	(27,949)	9,407
Inventory	(39)	491
Other assets	(13,041)	924
Long-term receivables	(517)	(1,595)
Income taxes	7,867	4,930
Accounts payable	(6,897)	(5,041)
Accrued expenses	(11,551)	24
Deferred income and other long-term liabilities	(1,674)	(42,811)
Other, net	(9,164)	(10,074)
Net cash used in continuing operations	(5,613)	(2,859)
Investing activities:		
Expenditures for property, plant and equipment	(37,326)	(35,679)
Proceeds from asset sales	-	2,551
Acquisitions, net of cash acquired.......................	(17,805)	(7,484)
Proceeds from sales of discontinued operations	294,250	-
Net cash provided by (used in) investing activities	239,119	(40,612)
Financing activities:		
Proceeds from short-term debt	4,658	12,600
Repayment of short-term debt	(17,107)	(18,819)
Proceeds from long-term debt	33,683	37,058
Repayment of long-term debt	(161,396)	(14,950)
Proceeds from issuance of Common Stock, net	6,807	976
Net cash (used in) provided by financing activities	(133,355)	16,865
Net cash provided by discontinued operations	7,815	31,031
Effect of exchange rate changes on cash	(433)	(1,715)
Increase in cash and cash equivalents	107,533	2,710

Cash and cash equivalents, beginning of period	10,610	4,773
Cash and cash equivalents, end of period	$ 118,143	$ 7,483

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

ProQuest Company and Subsidiaries

Notes to the Consolidated Financial Statements

(Dollars and shares in thousands, except per share amounts)

(Unaudited)

Note 1 - Basis of Presentation

These consolidated financial statements include the accounts of ProQuest Company and its subsidiaries (collectively the "Company") and are unaudited.

As permitted under the Securities and Exchange Commission (SEC) requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Certain reclassifications to the 2000 consolidated financial statements have been made to conform to the 2001 presentation. The Company believes that these financial statements include all necessary and recurring adjustments for the fair presentation of the interim period results. These financial statements should be read in conjunction with the Consolidated Financial Statements and related notes included in the Company's annual report for the fiscal year ended December 30, 2000.

In the first quarter of fiscal 2000, the Company adopted a plan to divest the Mail and Messaging Technologies and Imaging businesses and its financing subsidiary. Accordingly, the operating results and net assets of these businesses have been segregated from the Company's continuing operations. In the third quarter of fiscal 2001, the Company substantially completed the divestitures.

Note 2 - Significant Accounting Policies

Revenue Recognition. The Company derives revenues from licenses of database content, sales of microform subscriptions, service, software, and equipment.

Information & Learning (I&L) provides its customers with access to periodicals, newspapers, dissertations, out-of-print books and other scholarly material in exchange for a fee that normally covers a period of twelve months. Revenues from these subscription agreements are recognized ratably over the term of the agreements using the straight-line method.

Publishing Services (PS) publishes parts catalogs for automotive dealerships and also provides dealer management systems software for powersports dealerships. Parts catalog products are generally sold under multiple-element arrangements that include hardware and related operating systems software, an electronic parts catalog (EPC) database and retrieval system, an agreement to provide periodic updates to the EPC database over the term of the arrangement, and specified services. The Company allocates the total revenue to be received under these arrangements between two elements--the hardware and related operating system software element and the remaining deliverables considered together as a group--based on relative fair value.

The Company accounts for the hardware and related operating systems software element as a sales-type lease, and recognizes sales revenue equal to the normal selling price for such systems upon shipment, when all significant contractual obligations are satisfied and collection of the resulting receivable is reasonably assured. The remainder of the fee due under these arrangements is recognized as revenue on a straight-line basis over the term of the agreement.

Revenue from powersports dealer management systems software is recognized when evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is probable. Multiple element software license fees are allocated based on the relative fair values of the elements and recognized when accepted by the customer.

Inventory. Inventory costs include material, labor and overhead. Inventories are stated at the lower of cost (determined using the first-in, first-out ("FIFO") method) or market.

The components of inventory are shown in the table below as of the dates indicated:

	Sept. 29, 2001	December 30, 2000
Finished products	$2,084	$1,932
Products in process and materials ...	2,949	2,672
Total inventory	$5,033	$4,604

Property, Plant and Equipment. Property, plant and equipment includes I&L product masters in addition to land, buildings, and machinery and equipment. Product masters are the electronic and microform master copies which are subsequently used in the production process to create information based products. The carrying value of the product masters at September 29, 2001 is $99.9 million (net of $196.4 million of depreciation) and at December 30, 2000 is $88.3 (net of $178.0

million of depreciation).

Long-Term Deferred Income. Long-term deferred income represents amounts due from customers in the future that have been monetized by the Company's finance subsidiary (BHFS). As part of the sale of MMT (see Note 3), BHFS was sold and the Company entered into certain contractual obligations and will continue to monetize limited amounts due from customers through BHFS for the next three years.

Derivative Financial Instruments and Hedging Activities. On December 31, 2000, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of SFAS No. 133 and, SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 138 amends the accounting and reporting standards of SFAS No. 133 for certain derivative instruments and certain hedging activities. SFAS No. 133 requires the recognition of all derivative instruments as assets or liabilities in the balance sheet and measures them at fair value. Adoption of SFAS No. 138 and SFAS No. 133 did not have a material impact on the Company's financial position, operating results or cash flows.

Interest Rate Risk

The Company's interest bearing loans and borrowings are subject to interest rate risk. As part of the Company's risk management, $200 million of notional amount US dollar interest rate swaps are currently designated as cash flow hedges of the US dollar LIBOR interest rate debt issuances. The Company dedesignated $150 million of notional amount swaps due to the sale of discontinued operations (see Note 3).

All derivative contracts that are designated as cash flow hedges are reported at fair value with the changes in fair value recorded in Other Comprehensive Income (Loss). The Company recognizes the earnings impact of interest rate swaps designated as cash flow hedges upon the payment of the interest related to the underlying debt. The terms of the interest rate swaps exactly match the terms of the underlying transaction, therefore, there is no hedge ineffectiveness or corresponding earnings impact.

All derivative contracts that were dedesignated as cash flow hedges are reported at fair value. The Company recognized an additional $6 million (net of tax) expense as a result of the dedesignation of these cash flow hedges, and is reporting it in the gain (loss) on sales of discontinued operations.

6

Foreign Exchange Risks

A portion of revenues, earnings and net investment in foreign affiliates is exposed to changes in foreign exchange rates. Substantially all foreign exchange risks are managed through operational means. However, the Company believes that foreign exchange risks related to certain transactions are better managed by utilizing foreign currency forwards or option contracts. These contracts are reported at fair value and any changes in fair value are recognized currently in earnings. These contracts have not been designated for hedging treatment under SFAS No. 138 and SFAS No. 133.

Accounting

The impact the derivatives have on the financial statements are as follows:

Other Liabilities
- Fair value of interest rate swaps

Accumulated Other Comprehensive Income
- Interest rate swaps designated as cash flow hedges

Interest Expense
- Interest rate swaps designated as cash flow hedges

Gain (loss) on sales of discontinued operations, net
- Interest rate swaps dedesignated as cash flow hedges

Approximately $9,579 of net derivative losses included in other comprehensive income at September 29, 2001 will be reclassified into earnings within twelve months from that date.

The following table summarizes the net activities in other comprehensive income related to derivatives classified as cash flow hedges held by the Company during the first nine months of fiscal 2001:

Cumulative effect of adopting SFAS No. 133 as of December 31, 2000	$ (2,032)
(Gains)/losses reclassified into net earnings	6,516
Year-to-date net unrealized loss on derivatives	(11,752)
Total	$ (7,268)

Net Earnings per Common Share. Basic net earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per common share is computed by dividing net

earnings by the weighted average number of common shares outstanding during the period, and assumes the issuance of additional common shares for all dilutive stock options outstanding during the period. A reconciliation of the weighted average number of common shares and equivalents outstanding in the calculation of basic and diluted earnings per share is shown in the table below for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000

Basic	23,865	23,671	23,735	23,685
Dilutive effect of stock options	406	-	271	-
Diluted	24,271	23,671	24,006	23,685

Diluted Earnings (Loss) Per Common Share from Continuing Operations before Equity in Loss of Affiliate and Cumulative Effect of a Change in Accounting Principle:

Earnings from continuing operations before equity in loss of affiliate and cumulative effect of a change in accounting principle...	$ 0.23	$ 0.08	$ 0.70	$ 0.21
Equity in loss of affiliate	(0.07)	(0.23)	(0.56)	(0.60)
Loss from continuing operations before cumulative effect of a change in accounting principle..................................	$ 0.16	$ (0.15)	$ 0.14	$ (0.39)

Note 3 - Discontinued Operations

In the first quarter of fiscal 2000, the Company adopted a plan to divest its Mail and Messaging Technologies (MMT) and Imaging businesses and its financing subsidiary (BHFS). Accordingly, the operating results and net assets of these businesses have been segregated from the Company's continuing operations. The Consolidated Statements of Operations separately reflect the earnings of these businesses, which include an allocation of the Company's interest expense. The Consolidated Balance Sheets separately reflect the net assets of these businesses as a non-current asset.

In October 2000, the Company announced an agreement to sell its Imaging business to Eastman Kodak. The transaction was completed in February 2001 for $135,000 with the scanner equipment business excluded due to regulatory issues. In June 2001 the Company sold a majority of MMT's foreign operations to Pitney Bowes for $51,000.

Furthermore, in September 2001, the Company sold its North American MMT business, the scanner equipment business that was

excluded from the sale of the Imaging business, and BHFS to Glencoe Capital, a private equity investment firm, for $145,000, including $21,750 in seller financing. This note has an 8 1/2 year term, with an initial interest rate of 7.5%. Certain disincentives exist if the note is not paid off in 42 months, including a substantial increase in the interest rate on the note and warrants representing 3.5% of the new entity which detach at that time.

All remaining net assets of discontinued operations, approximately $5 million, which were excluded from the sale of the MMT business, have been fully written off as of September 29, 2001.

Results for discontinued operations are shown in the tables below for the periods indicated:

	Thirteen Weeks Ended Sept. 29, 2001				Thirteen Weeks Ended Sept. 30, 2000			
	MMT N.A. & BHFS	Imaging	MMT Intl.	Total Disc. Ops.	MMT N.A. & BHFS	Imaging	MMT Intl.	Total Disc. Ops
Net sales	$ 83,719	$ -	$ -	$ 83,719	$ 90,464	$ 33,635	$ 19,715	$143,814
EBIT (1) before restructuring	$ 3,877	$ -	$ -	$ 3,877	$ 7,378	$ 3,064	$ 201	$ 10,643
Restructuring charges	$ -	$ -	$ -	$ -	$ (1,704)	$ (283)	$ -	$ (1,987
EBIT (1)	$ 3,877	$ -	$ -	$ 3,877	$ 5,674	$ 2,781	$ 201	$ 8,656
Interest expense				(2,543)				(3,185
Earnings before income taxes				$ 1,334				$ 5,471
Income tax expense				$ (534)				$ (2,189
Earnings from discontinued operations.......				$ 800				$ 3,282

(1) EBIT is defined as earnings from discontinued operations before interest and income taxes.

9

	Thirty-Nine Weeks Ended Sept. 29, 2001				Thirty-Nine Weeks Ended Sept. 30, 200			
	MMT N.A. & BHFS	Imaging	MMT Intl.	Total Disc. Ops.	MMT N.A. & BHFS	Imaging	MMT Intl.	Total Disc.Ops
Net sales	$ 258,311	$ 10,924	$ 29,542	$ 298,777	$254,304	$102,137	$ 56,817	$413,25
EBIT(1) before restructuring	$ 12,993	$ 1,133	$ (893)	$ 13,233	$ 13,781	$ 10,204	$ (1,564)	$ 22,42
Restructuring charges	$ -	$ -	$ -	$ -	$ (1,859)	$(2,347)	$ (3,168)	$ (7,37
EBIT (1)	$ 12,993	$ 1,133	$ (893)	$ 13,233	$ 11,922	$ 7,857	$ (4,732)	$ 15,04

Interest expense	(8,391)	(8,33
Earnings before income taxes	$ 4,842	$ 6,70
Income tax expense..........	$ (1,937)	$ (2,68
Earnings from discontinued operations	$ 2,905	$ 4,02

(1) EBIT is defined as earnings (loss) from discontinued operations before interest and income taxes.

Note 4 - Restructuring

In December 1999, the Company approved a plan to separate its Mail and Messaging Technologies and Imaging businesses and its financial subsidiary from its core information and publishing operations, and to restructure and consolidate its corporate headquarters and certain activities of its continuing operations. The plan was developed to enhance the Company's operational focus and growth prospects and reduce its leverage.

At September 29, 2001, the restructuring plan has been

completed. The details of the restructuring charges are as follows:

	Balance	Thirteen Weeks Ended Sept. 29, 2001			Balance
	June 30, 2001	Restruct. Charge	Utilized Cash	Utilized Noncash(1)	Sept. 29, 2001
Continuing Operations					
Severance	$ 94	$ -	$ (94)	$ -	$ -
Obligations under various noncancellable leases...	1,551	-	(573)	(88)	890
Continuing Operations	$ 1,645	$ -	$ (667)	$ (88)	$ 890
Discontinued Operations					
Severance	$ -	$ -	$ -	$ -	$ -
Obligations under various noncancellable leases...	344	-	(70)	(274)	-
Discontinued Operations ..	$ 344	$ -	$ (70)	$ (274)	$ -

Total Company	$ 1,989	$ -	$ (737)	$ (362)	$ 890

(1) Non-cash charge is to eliminate restructuring reserve at discontinued operations which were sold during the thirteen weeks ended September 29, 2001 (MMT North America and Scanners).

Note 5 - Cumulative Effect of a Change in Accounting Principle

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). As a result of this pronouncement, the Company has modified its accounting for revenue from new on-line subscriptions in I&L and from electronic parts catalog (EPC) agreements in PS.

During the first nine months of fiscal 2001 and 2000, the Company recognized revenue of approximately $16,683 and $33,284, respectively, that was recognized as part of the 1999 cumulative effect of a change in accounting principle related to the Company's prior revenue recognition methods.

Note 6 - Comprehensive Income

Comprehensive earnings or loss includes all changes in stockholders' equity during the period except those resulting from investments by owners and distributions to owners.

Comprehensive income is shown in the table below for the

periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net earnings (loss)	$(30,498)	$ (280)	$ 14,632	$(70,584)
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments, net of tax	(1,907)	-	(7,268)	-
Foreign currency translation adjustments	626	103	1,055	311
Comprehensive income (loss)............	$(31,779)	$ (177)	$ 8,419	$(70,273)

The foreign currency translation adjustments and net unrealized loss on derivative instruments do not impact the Company's income tax expense.

Note 7 - Segment Reporting

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001,	Sept. 30, 2000
NET SALES				
Information and Learning.......	$ 57,408	$ 52,200	$ 172,821	$ 158,384
Publishing Services............	41,209	39,471	122,392	116,171
Total Net Sales	$ 98,617	$ 91,671	$ 295,213	$ 274,555
EBIT (1)				
Information and Learning.......	$ 8,526	$ 6,838	$ 27,051	$ 19,026
Publishing Services............	10,113	8,802	28,620	22,650
Corporate/Other................	(2,892)	(3,817)	(9,201)	(11,588)
Total EBIT (1)...................	$ 15,747	$ 11,823	$ 46,470	$ 30,088

	Sept. 29, 2001	Sept. 30, 2000
ASSETS		
Information and Learning...........................	$ 428,249	$ 359,576
Publishing Services................................	109,309	104,893
Corporate/Other....................................	150,454	40,115
Total Assets.......................................	$ 688,012	$ 504,584

(1) The Company uses earnings from continuing operations before interest, income taxes, restructuring, gain on sales of assets, equity in loss of affiliate and cumulative effect of a change in accounting principle (EBIT) as a measure of segment operating performance. EBIT is generally viewed as providing useful information regarding a company's operations, but it is not a measure of financial performance under generally accepted accounting principles. EBIT should not be considered in isolation from or as a substitute for net income as a measure of the Company's profitability. Additionally, the Company's calculations of EBIT may not be comparable to other similarly titled measures of other companies. EBIT has been included because it provides useful information about how management assesses the Company's operating performance.

Note 8 - Investments in Affiliates

The Company owns approximately 40% of bigchalk on a fully-diluted basis. bigchalk develops and markets products and services for research, curriculum integration, assessment, peer collaboration, professional development, online community, and e-commerce for teachers, students, parents, librarians and school administrators in the K-12 educational community. The Company accounts for its investment in bigchalk on the equity method. The Company's equity in bigchalk's loss equaled $13.4 million in the first nine months of 2001. The carrying value of this investment was $0 at September 29, 2001.

Summarized financial information of bigchalk is as follows:

Condensed Statement of Operations:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	Sept. 29, 2001	Sept. 30, 2000	Sept. 29, 2001	Sept. 30, 2000
Net sales	$ 7,085	$ 8,268	$ 21,223	$ 25,731
Gross profit	4,762	5,262	14,196	16,562
Loss before income taxes	(6,555)	(15,224)	(27,908)	(33,125)
Net loss	(11,822)	(15,474)	(40,541)	(32,472)

Condensed Statement of Financial Condition:

	Sept. 29, 2001	Dec. 30, 2000
Current assets	$ 35,873	$ 33,247
Non-current assets	53,615	69,293
Total assets	$ 89,488	$102,540
Current liabilities	$ 21,969	$ 26,343
Non-current liabilities	110,930	79,068
Stockholders' deficit	(43,411)	(2,871)
Total liabilities and stockholders' deficit....	$ 89,488	$102,540

13

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This section should be read in conjunction with the Consolidated Financial Statements of ProQuest Company and Subsidiaries (collectively the "Company") and the notes thereto included in the annual report for the year ended December 30, 2000.

Except for the historical information and discussions contained herein, statements contained in this release may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995.

These statements involve a number of risks, uncertainties and other factors, including, without limitation, the cost and availability of intellectual property from third parties, decreases in the ability to attract and retain employees, obtain capital, including interest rate risks, unexpected merger-related effects, as well as business execution risk, risk of new competitors, any necessary regulatory approvals, decreases in funding for Internet access as well as overall acceptance and usage of the Internet in the education and library markets, the availability of free or advertising-supported research information on the Internet, rate of acceptance of electronic-based mailings, including effects of a rate of acceptance of internet-based solutions, including the automotive business, changes in the business services market, changes in the automotive industry, and general economic conditions, all of which could cause actual results to differ materially, and such other risks as discussed in the Company's filing with the Securities and Exchange Commission.

Results of Operations

In the first quarter of 2000, the Company adopted a plan to divest its Mail and Messaging Technologies and Imaging business and its financing subsidiary. As of September 29, 2001, the Company has completed the plan for the sale and disposal of its discontinued operations.

Third Quarter 2001 Compared to Third Quarter 2000

The Company's net sales from continuing operations increased $6.9 million, or 7.6%, to $98.6 million in the third quarter of 2001.

Net sales of the Information & Learning business increased $5.2 million, or 10.0%, to $57.4 million due to strong sales of electronic products, which grew 16.2%.

Net sales of Publishing Services business increased $1.7 million, or 4.4% to $41.2 million in the third quarter of 2001. This increase is primarily due to strong sales of the electronic parts catalogs, which grew 11.0%, partially offset by a slight decline in sales of computer hardware and microfilm, which are less strategic and more mature product lines.

The Company's cost of sales decreased $2.0 million, or 4.3% to $44.6 million in the third quarter of 2001, with the gross profit (net sales less cost of sales) percentage of sales increasing 5.6%, primarily due to favorable product mix and effective expense management.

Research and development expense increased $0.4 million, or 8.5%, to $5.4 million in the third quarter of 2001 as the Company continually seeks to take advantage of new product/technology opportunities in each of its businesses.

Selling and administrative expense increased $4.6 million, or 16.1%, to $33.0 million in the third quarter of 2001, reflecting additional sales/marketing resources to capitalize on the sales growth opportunities.

The Company uses earnings from continuing operations before interest, income taxes, restructuring, gains on sales of assets, equity in loss of affiliate and cumulative effect of a change in accounting principle (EBIT) as a measure of segment operating performance. The Company also uses EBITDA from continuing operations (which is defined as EBIT plus depreciation and amortization of other long-term assets, primarily intangibles of acquired companies) as a measure in assessing both operating performance and cash flows. Both EBIT and EBITDA are generally viewed as providing useful information regarding a company's operation, but they are not measures of financial performance under generally accepted accounting principles. EBIT and EBITDA from continuing operations should not be considered in isolation from or as a substitute for net income as a measure of the Company's profitability. Additionally, the Company's calculations of EBIT and EBITDA from continuing operations may not be comparable to other similarly titled measures of other companies.

EBIT increased $3.9 million, or 33.2%, to $15.7 million in the third quarter of 2001 resulting from increased sales and leveraged operating costs/expenses. EBITDA increased $4.9 million, or 20.9%, to $28.5 million in the third quarter of 2001.

Net interest expense decreased $1.0 million, or 14.0%, to $6.3 million in the third quarter of 2001, primarily reflecting

decreased debt levels due to the Company utilizing the proceeds from the sales of discontinued operations to pay down debt offset by expense related to unfavorable cash flow hedges.

Income tax expense increased in the third quarter of 2001 as a result of the higher level of pretax profit, with the income tax rate remaining constant with the prior year.

Financial Condition and Liquidity

The sale of the MMT businesses was finalized on September 29, 2001 (see Note 3), proceeds received from the transaction on that date are reflected on the balance sheet as part of cash and cash equivalents. The Company will utilize the proceeds from the sale to reduce debt.

Debt (net of cash and cash equivalents) decreased by $112.3 million to $258.9 million in the third quarter of 2001 primarily as a result of the proceeds from the sales of discontinued operations.

Nine Months Year-to-Date 2001 Compared to Nine Months Year-to-Date 2000

The Company's net sales from continuing operations increased $20.7 million, or 7.5%, to $295.2 million in the first nine months of 2001, resulting from strong sales growth of I&L. Net sales of I&L increased $14.4 million, or 9.1%, to $172.8 million due to strong sales of electronic products, which grew 14.9%, partially offset by lower than expected international sales.

Net sales of PS increased $6.2 million, or 5.4% to $122.4 million in the first nine months of 2001. This increase is primarily due to strong sales of the electronic parts catalogs, which grew 11.5%, partially offset by a slight decline in sales of computer hardware and microfilm, which are less strategic and more mature product lines.

The Company's cost of sales decreased $4.4 million, or 3.1% to $137.2 million in the first nine months of 2001, with the gross profit (net sales less cost of sales) percentage increasing 5.1% primarily as a result of favorable product mix and effective expense management.

Research and development expense increased $2.5 million, or 18.5%, to $15.9 million in the first nine months of 2001 as the Company continually seeks to take advantage of new product/technology opportunities in each of its businesses. The Company's research and development expenditures include investments in a variety of e-commerce initiatives, expenses for

database and software development, information delivery systems and other electronic devices.

Selling and administrative expense increased $6.2 million, or 7.0%, to $95.5 million in the first nine months of 2001, reflecting additional sales/marketing resources to capitalize on the sales growth opportunities from internet-based products.

The Company uses earnings from continuing operations before interest, income taxes, restructuring, gains on sales of assets, equity in loss of affiliate and cumulative effect of a change in accounting principle (EBIT) as a measure of segment operating performance. The Company also uses EBITDA from continuing operations (which is defined as EBIT plus depreciation and amortization of other long-term assets, primarily intangibles of acquired companies) as a measure in assessing both operating performance and cash flows. Both EBIT and EBITDA are generally viewed as providing useful information regarding a company's operation, but they are not measures of financial performance under generally accepted accounting principles. EBIT and EBITDA from continuing operations should not be considered in isolation from or as a substitute for net income as a measure of the Company's profitability. Additionally, the Company's calculations of EBIT and EBITDA from continuing operations may not be comparable to other similarly titled measures of other companies.

EBIT increased $16.4 million, or 54.4%, to $46.5 million in the first nine months of 2001 resulting from increased sales and leveraged operating costs/expenses. EBITDA increased $18.0 million, or 26.3%, to $86.4 million in the first nine months of 2001.

Net interest expense decreased $3.4 million, or 15.4%, to $18.6 million in the first nine months of 2001, primarily reflecting decreased debt levels due to the Company utilizing the proceeds from the sales of discontinued operations to pay down debt offset by expense related to unfavorable cash flow hedges.

Income tax expense increased in the first nine months of 2001 as a result of the higher level of pretax profit, with the income tax rate remaining constant with the prior year.

The Company's equity in bigchalk's loss equaled $13.4 million in the first nine months of 2001.

Financial Condition and Liquidity

The sale of the MMT businesses was finalized on September 29, 2001 (see Note 3); proceeds received from the transaction on that date are reflected on the balance sheet as part of cash and cash equivalents. The Company will utilize the proceeds from the sale to reduce debt.

Debt (net of cash and cash equivalents) decreased by $248.3 million to $258.9 million in the first nine months of 2001 as a result of the proceeds from the sales of discontinued operations, partially offset by cash used by operations and capital expenditures.

The Company believes that current cash balances, cash generated from operations, and availability under its line of credit will be adequate to fund the growth in working capital and capital expenditures necessary to support planned increases in sales for the foreseeable future.

Interest Rate Risk Management

The Company uses variable-rate long-term debt to finance its operations. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of most of its interest payments. It is the Company's objective to hedge between 75 and 95 percent of its variable-rate longer term interest payments. To meet this objective, management enters into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk.

Recently Issued Financial Accounting Standards

In July 2001, the Financial Accounting Standards Boards (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses financial accounting and reporting for business combinations, and eliminates the pooling of interest method as a valid method to account for a business combination for all business combinations initiated after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets as well as how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill ceases upon adoption of the Statement, which for the Company will be December 30, 2001, the first day of the Company's next fiscal year. While management is continuing to assess the impact of these Statements on the Company's results of operations and financial position, the Company's initial assessment of these new accounting rules is an increase in net earnings of approximately $0.25 per share.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

The Company, as a result of its global operating and financing activities, is exposed to changes in foreign currency and interest rates, which may adversely affect its results of operations and financial position. The Company has entered into interest rate swaps having notional amounts totaling $350 million at September 29, 2001. In light of the completion of the sales of the previously identified discontinued operations, the Company has dedesignated $150 million of these swaps and has terminated these swaps prior to this filing. The potential impact on the Company's earnings from a 50 basis point increase or decrease in quoted interest rates would be approximately $205 thousand expense or benefit for the first nine months of 2001. The interest rate swaps have expiration dates through September 2005.

The Company's practice is to hedge its significant operating balance sheet exposures to foreign currency rate fluctuations via use of foreign currency forward or option contracts. The Company does not utilize financial derivatives for trading or other speculative purposes. The derivative contracts have maturity dates extending through November 2, 2001, and are for an aggregate amount of $65.8 million at September 29, 2001 (which approximates the fair value based on quoted market prices). The Company is exposed to market risk in the event of nonperformance by the other parties (major international banks) to these contracts; however, such nonperformance is not anticipated. The potential impact on the Company's earnings from a 10% adverse change in quoted foreign currency rates would be insignificant.

Part II. Other Information

Item 1. Legal Proceedings.

The Company is involved in various legal proceedings incidental to its business. Management believes that the outcome of such proceedings will not have a material adverse effect upon the consolidated operations or financial condition of the Company.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

Index Number	Description
None	

(b) Reports on Form 8-K.

The Company filed the following Form 8-K's during the thirteen weeks ended September 29, 2001:

- On July 26, 2001, a Form 8-K/A regarding the sale of its Imaging unit.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 13, 2001 PROQUEST COMPANY

/s/ James P. Roemer

James P. Roemer
Chairman of the Board
of Directors, President and
Chief Executive Officer

/s/ Alan Aldworth

Chief Financial Officer
and Director