PROQUEST CO
Form S-3/A
June 11, 2002
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As filed with the Securities and Exchange Commission on June 11, 2002

Registration No. 333-86434

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2
to

FORM S-3
REGISTRATION STATEMENT

Under
THE SECURITIES ACT OF 1933

PROQUEST COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**2741**	**36-3580106**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

300 North Zeeb Road
Ann Arbor, Michigan 48103
(734) 761-4700
(Address, including zip code, and telephone number, including area code, of registrant s executive offices)

Todd Buchardt
General Counsel
ProQuest Company
300 North Zeeb Road
Ann Arbor, Michigan 48103
(734) 761-4700
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies To:

Grant A. Bagan
McDermott, Will & Emery
227 West Monroe Street, Suite 4700
Chicago, Illinois 60606-5096
(312) 372-2000

Lawrence D. Levin
Katten Muchin Zavis Rosenman
525 West Monroe Street, Suite 1600
Chicago, Illinois 60661-3693
(312) 902-5200

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

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The Information contained in this prospectus is not complete and may be changed. We and the selling shareholders named in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 11, 2002

5,100,000 Shares

Common Stock

We are selling 3,000,000 shares of common stock and the selling shareholders are selling an aggregate of 2,100,000 shares of common stock. We will not receive any of the proceeds from the sale of the shares of common stock by the selling shareholders.

Our common stock is listed on The New York Stock Exchange under the symbol PQE. The last reported sale price on June 10, 2002 was $37.30 per share.

The underwriters have an option to purchase a maximum of 765,000 additional shares of our common stock from us and certain selling shareholders to cover over-allotments of shares.

Investing in our common stock involves risks. See Risk Factors on page 7.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to ProQuest	Proceeds to Selling Shareholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the shares of common stock will be made on or about , 2002.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston
Banc of America Securities LLC
Bear, Stearns & Co. Inc.
U.S. Bancorp Piper Jaffray
Jefferies & Company, Inc.

The date of this prospectus is , 2002.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

In this prospectus, the Company, ProQuest, we, us and our refer to ProQuest Company and our subsidiaries. ProQuest®, Smart Durable Links and XanEdu are our trademarks. Each trademark, trade name or service mark of any other company appearing in this prospectus belongs to its holder.

Our fiscal year ends on the Saturday closest to December 31st in each calendar year. References to 2001 in this prospectus are for the 52 weeks ended December 29, 2001. References to 2000 in this prospectus are for the 52 weeks ended December 30, 2000. References to 1999 in this prospectus are for the 52 weeks ended January 1, 2000. References to the first quarter of fiscal 2002 and the first quarter of fiscal 2001 are for the thirteen weeks ended March 30, 2002 and March 31, 2001, respectively.

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PROSPECTUS SUMMARY

This summary may not contain all of the information that may be important to you. You should read this entire prospectus, including Risk Factors and the additional information, including the financial data and related notes included or incorporated by reference in this prospectus, before making an investment decision.

ProQuest Company

We are a leading provider of value-added information and content to the library and education, and automotive and powersports industries. Formerly known as Bell & Howell, we have a 97-year history with more than 50 years in information and content aggregation. We provide products and services to our customers through two business groups: Information & Learning and Business Solutions. Through our Information & Learning group, which primarily serves the library and education markets, we aggregate and publish value-added content from a wide range of sources, including newspapers, periodicals and books. Our Business Solutions group, formerly known as Bell & Howell Publishing Services, is primarily engaged in the delivery of comprehensive parts information to the automotive market. It also provides dealers in the powersports (motorcycle, marine and RV) markets with management systems that enable them to better manage inventory, customer service and other aspects of their businesses. We have demonstrated strong, stable growth in both revenue and earnings in the last few years with 2001 revenue increasing to $401.6 million from $359.5 million in 1999, and 2001 earnings from continuing operations, before interest, income taxes, equity in loss of affiliate and cumulative effect of a change in accounting principle, increasing to $66.4 million from $36.8 million in 1999.

Our predecessor company, Bell & Howell, has been synonymous with creative and technology-based solutions since 1904. In 2001, we sold our legacy Imaging, Mail and Messaging Technologies and finance-related businesses and changed our name to ProQuest Company.

Information & Learning. Our Information & Learning group transforms information contained in periodicals, newspapers, dissertations, out-of-print books and other scholarly material into easily accessible microfilm, electronic form (including online access and CD-ROM) or print-on-demand. Our ability to provide customers with full image content as it was originally published distinguishes us from many other information providers, which typically store and provide information in a text-only format, omitting essential charts, pictures and other information such as historical context and placement in the original publication. We aggregate information from a broad array of newspapers and periodicals with which we have licensing arrangements, including *The New York Times*, *The Wall Street Journal*, *The Washington Post* and *The Christian Science Monitor*. Through our own unique methods we convert this information to microfilm and electronic form and add professionally prepared proprietary abstracts. The result is an expansive information vault that addresses all major areas of study with content from over 18,000 periodical titles and 7,000 newspaper titles, as well as a unique content collection consisting of approximately 1.0 million dissertations, 144,000 out-of-print books, 550 research collections and 15 million proprietary abstracts. Most of our content is accessible through microfilm. We are in the process of converting our most frequently demanded microfilm content to electronic form. Of our 25,000 periodical and newspaper titles, content from approximately 7,000 titles originating after 1985 is available online. Content from approximately 3,500 of these titles is also accessible by CD-ROM.

Our products are present in most academic libraries in the U.S. Our library customers generally sign one year subscription contracts to access our proprietary database. Over the last three years, we have experienced approximately 90% renewal rates. In both 2001 and the first quarter of fiscal 2002, Information & Learning represented approximately 59% of our total sales.

We have undertaken two significant initiatives in our Information & Learning group. In 1998, through our Digital Vault Initiative, we began converting portions of our microform collection into electronic form, allowing online access to information originally printed prior to 1985 in its original format and context (e.g., the periodical

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or newspaper in which the text was first printed). Most of this content has never before been available electronically. In mid-2001, we launched XanEdu, which utilizes our content to develop supplemental curriculum materials for the college classroom.

Business Solutions. Our Business Solutions group is the global leader in the development and deployment of parts and service-oriented catalogs and dealer performance applications for the automotive market. Business Solutions pioneered the electronic parts catalog (EPC) in 1985 and now offers information on more automobile brands than any other provider of similar products. It also provides dealer management systems to the powersports markets, which enable dealers in those markets to better manage inventory, customer service and other aspects of their businesses. Our EPC provides a powerful and flexible technical reference system using CD-ROM technology. Over 30,000 automobile dealerships now use our EPCs worldwide. Business Solutions currently publishes EPCs for approximately 30 automobile brands manufactured by GM, Ford, DaimlerChrysler, Honda, Toyota, Volvo, Nissan and Saturn, among others. Our customer contracts are usually three to five years in duration, and we have experienced on average 85% renewal rates over the last three years. Through our Alison business unit, we provide automobile original equipment manufacturers (OEMs) and dealers with management information systems that monitor and evaluate dealer performance in a variety of areas such as product inventory, pricing, territory, margins and OEM support. In both 2001 and the first quarter of fiscal 2002, Business Solutions represented approximately 41% of our total sales.

Our Markets

The library market is diverse and growing. Libraries continually seek out additional resource materials and new methods to access and deliver information to meet their users needs. The total market for library resource materials in the U.S. is estimated to have reached $6.17 billion in 2001, with total purchases of resource materials projected to increase approximately 24% from 2001 to 2005. Continued rapid technological advancements and the emergence of the Internet as a widely used academic and research tool have led libraries to supplement or replace their microform archives with new and more functional means for providing information to users. As in the library market, colleges and universities continue to increase the use of technology-based solutions, with over 60% of all U.S. college courses currently having an online component.

The North American automotive and powersports markets are fragmented. There are over 33,000 automotive dealerships and 10,000 powersports dealerships in the United States and Canada that provide service and repair. These dealerships require the most current information on parts, schematics and availability to provide quality service and efficiently manage their businesses. Electronic parts catalogs and dealer management systems provide a critical link between OEMs and their dealer networks in both the automotive and powersports markets.

Our Competitive Strengths

We believe that the following competitive strengths distinguish us from our competitors and position us to capitalize on the growing demand for effective and efficient delivery of our information resources:

Leading and Defensible Market Position. We are a leading provider of content to academic institutions and public libraries worldwide. Our Business Solutions group has a large, established customer base of over 38,000 automotive and powersports dealerships in the United States and Europe, with many relationships dating back decades.

Vast Collection of Information Content. We have one of the world s largest commercially available information archives used in the library and education markets. We are the sole source, other than the original publisher, of approximately 1,000,000 dissertations, 550 research collections and 144,000 out-of-print books.

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Key Relationships with Content Suppliers. Our business is based upon long-term relationships with our content suppliers, some of which span 50 years. These relationships have enabled us to develop our unique information capabilities and have resulted in the high market penetration of our products in the library and automotive service and repair markets that we serve. We have relationships with approximately 8,000 publishers and most of the world s major automobile manufacturers.

Subscription-Based Model with High Renewal Rates. Both of our business groups generate approximately 78% of their revenues from subscription contracts and benefit from approximately 90% renewal rates. These renewal rates support our belief that we enjoy superior loyalty from our customers.

Robust Technology Capabilities. We augment our broad information resources with extensive technical expertise that allows us to identify and develop product offerings possessing enhanced search features and superior quality, accuracy and functionality in information access. Through our Digital Vault Initiative, we have developed a process to convert microform-based content to electronic content that links both ASCII and PDF formats, providing the reader with the search capabilities of ASCII and the visual benefits of PDF.

Experienced Management Team. Our management team has significant experience in developing and marketing information products to the library and education, and automotive and powersports markets.

Our Growth Strategy

The successful implementation of our growth strategy has increased sales and improved earnings from continuing operations. Key elements of our growth strategy include the following:

Increase Penetration into Existing and New Markets. We are aggressively utilizing the strong presence of our microform business in U.S. libraries to increase sales of our online product offerings. We recently expanded our presence in the higher education market through our XanEdu product offerings, which utilize our content to create supplemental course materials for the college classroom. In addition, we are leveraging our strong presence in the U.S. automotive service and repair market to expand our presence internationally.

Develop New Products. Our extensive information resources together with our over 250-person research and development and software engineering staffs provide significant opportunities to develop unique products. We have recently introduced our Historical Newspapers products, which are online databases of entire publications of leading newspapers, and HeritageQuest, an online genealogical research tool. The new online product offerings will appear in many of our brands and product families, such as ProQuest Online, Chadwyck-Healey and Digital Vault Initiative. We are also digitizing our vast microform vault to create new online products. In our Business Solutions group, we recently introduced TrackerPac, an online performance analysis tool for GM Europe and its dealers.

Further Expand our Content. We intend to increase our information resources by pursuing more revenue generating alliances similar to the existing relationships we have with the publishers of *The Wall Street Journal, The New York Times, The Washington Post* and *The Christian Science Monitor*. Our Business Solutions group was recently selected as the exclusive provider of EPCs for Mazda North America.

Pursue Strategic Acquisitions. Consistent with our recent past, we plan to continue to make strategic acquisitions to enhance our content and distribution channels in both our Information & Learning and Business Solutions groups.

Our principal executive offices are located at 300 North Zeeb Road, Ann Arbor, Michigan 48103, and our telephone number at that location is (734) 761-4700. Our website is located at www.proquestcompany.com. Information on our website is not a part of this prospectus.

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The Offering

Common stock offered by us	3,000,000 shares
Common stock offered by the selling shareholders	2,100,000 shares
Common stock to be outstanding after this offering	27,219,428 shares
Use of proceeds	To repay outstanding indebtedness.
NYSE symbol	PQE

The number of shares of our common stock to be outstanding after this offering is based on the number of shares outstanding as of March 30, 2002 and does not include:

- 960,480 shares issuable upon exercise of outstanding options under our 1995 Employee Stock Option Plan, which are exercisable as of March 30, 2002 at a weighted average exercise price of $26.06 per share.

- 54,333 shares issuable upon exercise of outstanding options under our 1995 Directors Stock Option Plan, which are exercisable as of March 30, 2002.

Unless otherwise stated, all information contained in this prospectus assumes no exercise of the underwriters over-allotment option.

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Summary Consolidated Financial and Operating Data

The following table sets forth continuing operations financial data. This summary consolidated financial and operating data may not be indicative of future performance. You should read this summary consolidated financial and operating data in combination with our Selected Consolidated Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, and our consolidated financial statements and the accompanying notes included in this prospectus.

	First Quarter		Fiscal		
	2002	2001	2001	2000	1999
	(Unaudited)				
	(Dollars in thousands, except per share data)				
Continuing Operations Data (1) (2):					
Net sales	$ 102,752	$ 95,853	$ 401,628	$ 374,301	$ 359,460
Cost of sales	(47,750)	(47,140)	(186,963)	(189,196)	(182,300)
Gross profit	55,002	48,713	214,665	185,105	177,160
Earnings from continuing operations before interest, income taxes, equity in loss of affiliate and cumulative effect of a change in accounting principle (3)	$ 20,518	$ 14,241	$ 66,426	$ 39,959	$ 36,816
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle (3)	$ 8,278	$ (573)	$ 12,286	$ (13,889)	$ 15,060
Diluted earnings (loss) from continuing operations before cumulative effect of a change in accounting principle, per common share	$ 0.34	$ (0.02)	$ 0.51	$ (0.59)	$ 0.64
Other Continuing Operations Data:					
Gross profit as a percent of net sales	53.5%	50.8%	53.4%	49.5%	49.3%
EBITDA (4)	32,635	27,956	121,650	93,797	86,407
EBITDA as a percent of net sales	31.8%	29.2%	30.3%	25.1%	24.0%
Capital expenditures	15,588	12,503	52,924	42,623	35,055
Cash flow provided by (used in):					
Operating activities	(14,993)	472	25,641	42,056	29,023
Investing activities	(18,205)	112,497	206,301	(49,717)	(124,254)
Financing activities	34,450	(104,592)	(252,388)	(14,236)	90,527
Pro forma (5):					
Earnings from continuing operations before cumulative effect of a change in accounting principle, pro forma for repayment of debt	$ 9,430		$ 18,661		
Diluted earnings from continuing operations before cumulative effect of a change in accounting principle, per common share, pro forma for repayment of debt	$ 0.34		$ 0.69		

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The following balance sheet table presents our consolidated balance sheet as of March 30, 2002 on (i) an actual basis, and (ii) an as adjusted basis giving effect to our sale of 3,000,000 shares of common stock in this offering at an assumed public offering price of $37.30 per share (the closing price of our common stock on the New York Stock Exchange on June 10, 2002), after deductions for the underwriting discounts and commissions and estimated offering expenses payable by us.

	As of March 30, 2002	
	Actual	As Adjusted
	(Dollars in thousands)	
Balance Sheet Data (2):		
Cash and cash equivalents	$ 1,644	$ 1,644
Total assets	626,921	626,921
Long-term debt, less current maturities	275,000	180,044
Total shareholders equity (deficit)	(37,876)	67,652

(1) In December 1999, we adopted a plan to divest our Imaging, Mail and Messaging Technologies and finance-related businesses. Accordingly, the operating results of these businesses have been segregated from our continuing operations and are separately reported as discontinued operations in our consolidated financial statements.

(2) During fiscal 2000, we changed our method of revenue recognition pursuant to SAB 101. The fiscal 1999 results have not been retroactively restated to reflect the impact of this change. During fiscal 2000, we changed our method of accounting for certain inventory costs from LIFO to FIFO (see Note 1 to our consolidated financial statements included elsewhere in this prospectus). The fiscal 1999 operating and balance sheet data have been retroactively restated to reflect this change in accounting.

(3) These amounts include the following:

	First Quarter		Fiscal		
	2002	2001	2001	2000	1999
	(Dollars in thousands)				
Restructuring charges	$ 0	$ 0	$ 0	$ (5,196)	$ (10,505)
Gain/(loss) on sales of assets	0	0	(2,312)	2,726	5,152

(4) EBITDA is defined as earnings from continuing operations before interest and income taxes, net of equity in loss of affiliate and cumulative effect of a change in accounting principle, and excluding restructuring charges and gain/loss on sales of assets, plus depreciation and amortization of other long-term assets, but excluding the amortization/write-off of deferred financing costs. EBITDA is generally regarded as providing useful information regarding a company s financial performance, but it is not a measure of financial performance under generally accepted accounting principles. EBITDA should not be considered in isolation from or as a substitute for net earnings (loss) as a measure of our profitability, or as an alternative to our cash flow from operating activities determined under generally accepted accounting principles as a measure of liquidity. Additionally, our calculation of EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA has been included as a supplemental disclosure because it provides useful information about how management assesses our ability to service debt and to fund capital expenditures. Our ability to service debt and fund capital expenditures in the future, however, may be affected by other operating or legal requirements.

(5) Pro forma adjustment for (i) the sale of 3,000,000 shares of common stock by us at an assumed public offering price of $37.30 per share, after deductions for the underwriting discounts and commissions and estimated offering expenses payable by us and the application of the estimated net proceeds from the offering to repay debt and (ii) the repayment of debt from the net proceeds of the sales of our discontinued operations as if such sales and the application of the net proceeds therefrom had occurred at the beginning of the periods indicated.

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RISK FACTORS

You should carefully consider the following risk factors in addition to the other information contained and incorporated by reference in this prospectus before purchasing our common stock.

Our sales and profitability depend on our ability to continue to develop new products that appeal to customers and end users.

We compete in markets characterized by continual technological change, product introductions and enhancements, changes in customer demands and evolving industry standards. The technological life cycles of our products are difficult to estimate. The demand for some of our more mature products and services has begun to migrate to other products and services. For example, our microform product unit sales have decreased 4 to 8% per year over the past three years due to the development of electronic-based products, such as CD-ROM and online databases. We may be unable to develop products that offset the declining revenues of our mature products. To remain competitive, we must continue to develop new products and invest in technologies that help customers use our products and services, enhance the quality of images being transmitted, increase delivery of our products over the Internet and CD-ROM and reduce the time in which such products are transmitted. For example, most of our content originating prior to 1985 is microfilm only. Based upon our assessment of consumer demand, we are currently developing new products by converting select microfilm content originating prior to 1985 to electronic form, which can be accessed using CD-ROM and online databases. Our focus on product development may result in unanticipated expenditures and capital costs that may not be recovered. We have invested significant resources to develop new products, including XanEdu and our Digital Vault Initiative product offerings, and may be unable to generate sufficient sales of these products to recover our associated costs. Our failure to develop and introduce new or enhanced services and products that achieve customer acceptance in a timely and cost-effective manner would significantly harm our business.

Our products and services currently depend on data access agreements with third parties, and the failure to maintain these agreements on commercially reasonable terms could harm our business.

Our products are in part based on content supplied pursuant to data access agreements with third parties. We may not be able to maintain our current agreements at cost-effective prices. In addition, data used in our products might become unavailable or not be updated as required. If a significant number of our content providers decide to terminate their relationships with us, we may:

- be at a competitive disadvantage with respect to our competitors;
- lose customers that rely on us as a single source of resources; and
- lose revenue generated from particular clients.

Moreover, the content supplied by many of our licensors, such as The New York Times Company, is unique and cannot be replaced. The failure to acquire alternative data access sources could harm our business. Even if we are able to substitute content providers, we may not be able to enter into alternative data access agreements on commercially reasonable terms or on a timely basis. Any of these results could harm our business.

Our products and services must be able to adapt to differing and evolving operating systems.

We must continue to invest in new technologies to ensure that our products can operate in numerous and evolving operating environments. For example, our electronic parts catalogs must run on Windows, Unix and Internet-based systems. As the technological landscape continues to evolve, it may be more difficult to make these necessary changes to our databases and operating systems in a timely and cost-effective manner. If our databases become incompatible with the databases or systems used by our customers or become outdated, then our products could become obsolete and our business will suffer.

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If we are not able to continue to increase our online product offerings, our business will suffer.

We must continue to expand our online product offerings or our business will suffer. Most of our content for our Information & Learning business is available as microfilm, and we are in the process of selectively converting microfilm content, based on current and anticipated demand, so that it is available online and through other electronic media. Our business will suffer if we do not identify and convert the content demanded by end users. In addition, the costs of converting content to electronic form are significant. For example, in 2001 we incurred approximately $9.0 million to convert content into product masters so it is available online, and we anticipate that this amount will increase in the next three years. We may not be able to generate significant sales of our online and CD-ROM products to offset these costs.

Changes in funding for public schools and libraries could cause the demand for our products to decrease.

In 2001, we derived approximately 40% of our revenues from public schools and libraries, which are heavily dependent on federal, state and local government funding. In addition, the government appropriations process is often slow, unpredictable and subject to factors outside of our control. Curtailments, delays or reductions in the funding of schools, colleges or libraries could delay or reduce our revenues. Funding difficulties experienced by schools, colleges or libraries could also cause those institutions to be more resistant to price increases and could slow investments in educational technology and products, which could harm our business.

We face intense competition and may not be able to successfully attract and retain customers.

The market for our products and services is highly competitive. In the Information & Learning group, our main competitors are Gale Group, a division of Thomson Corporation, and EBSCO Company. For distribution of dissertations, we compete with universities, such as Massachusetts Institute of Technology. Information & Learning competitors also include free Internet sites, newspaper and book publishers, software publishers and electronic commerce providers. Barriers to entering the education and library market, especially its online component, are relatively low, and we expect competition in this market to intensify. In the Business Solutions group, we compete with Automatic Data Processing Company, Electronic Data Systems, UCS, Infomedia and the proprietary electronic parts systems of certain OEMs such as DaimlerChrysler, Harley-Davidson and Honda Motor Company.

Many of our current and potential future competitors have substantially greater financial resources, name recognition, experience and larger customer bases than we do. Accordingly, our competitors may respond more quickly to new technologies and changes in customer requirements, have more favorable access to suppliers, and devote greater resources to the development and sale of their products. Our competitors pricing and other operational decisions, like the recent decision of several of our competitors to offer free educational content services to increase their market share, may also adversely affect us. Any of the above results could adversely affect our ability to attract and retain customers and harm our business.

Our products depend on components licensed from third parties, and the failure to maintain these licenses, or the failure of these third parties to improve and maintain these components, could harm our ability to produce and develop products.

Our products incorporate third party technologies. For example, many of our products and services rely on databases from providers such as Oracle. We may be unable to obtain all of the necessary licenses for the third party technology required by our products on commercially reasonable terms, on a timely basis or at all. In addition, technology used in our products might become unavailable or not be updated as required. We may not be able to develop alternative solutions if third party technologies are not available to us on reasonable terms. The failure to obtain necessary third party technology or identify and implement alternative technology solutions could harm our business.

Our intellectual property protection may be inadequate, allowing others to use our technologies and thereby reduce our ability to compete.

We regard certain of the technology underlying our services and products as proprietary, such as our search and retrieval and database management features. The steps that we take to protect our proprietary technology

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may be inadequate to prevent misappropriation of our technology, or to prevent third parties from developing similar technology independently. We rely on a combination of trademark, copyright and trade secret laws, employee and third-party nondisclosure agreements and other contracts to establish and protect our technology and other intellectual property rights. Existing trade secret, trademark and copyright law afford us limited protection, while the agreements and contracts may be breached or terminated, and we may not have adequate remedies for any breach. Furthermore, policing unauthorized use of our intellectual property is difficult. A third party could copy or otherwise obtain and use our products or technology without authorization. Litigation may be necessary to protect our intellectual property rights, which could result in substantial cost and diversion of our efforts. Any such litigation may not even be successful, in which case our business could be further adversely affected.

Our products could infringe on the intellectual property of others, which may cause us to engage in costly litigation and could cause us to pay substantial damages and prohibit us from selling our products.

Third parties may assert infringement or other intellectual property claims against us based on their intellectual property rights. If such claims are successful, we may have to pay substantial damages, possibly including treble damages, for past infringement. We might also be prohibited from selling our products or providing certain content without first obtaining a license from the third party, which, if available at all, may require us to pay additional royalties. Authors and photographers have been successful in asserting their rights to receive royalty payments and to control the reproduction of their works into electronic format. These authors and photographers could elect to withdraw their works from our electronic product offerings. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, may be expensive and may divert management attention from other business concerns.

A component of our growth strategy is to expand our international operations. We may not succeed with this strategy.

Engaging in business internationally subjects us to a number of risks, such as acceptance by foreign educational systems of our approach to educational products, expenses associated with customizing products for foreign countries, longer accounts receivable collection periods and greater difficulty in collection, unexpected changes in regulatory and legal requirements, potentially adverse tax consequences, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, changing economic conditions, exposure to different legal standards (particularly with respect to intellectual property), burdens of complying with a variety of foreign laws and fluctuations in currency exchange rates. If any of these risks were to materialize, our business could be harmed.

We have entered into strategic alliances and acquisitions and may pursue others that could disrupt our operations or fail to result in the benefits that we anticipated.

We may continue to make strategic acquisitions of companies, products or technologies or enter into strategic alliances as necessary to implement our business strategy. Since January 2001, we have consummated four acquisitions. We purchased Softline Information, Campus Custom Publishing, Heritage Quest and Micromedia Ltd. for a total of approximately $20 million. We have also entered into a joint venture with Ford Motor Company, General Motors Corporation and DaimlerChrysler to form OEConnection. If we are unable to fully integrate acquired businesses, products or technologies with our operations, we may not receive the intended benefits of these acquisitions. The success of our existing and future joint ventures and strategic alliances depends in part on the ability of the other parties to these transactions to fulfill their obligations. These acquisitions and joint ventures, and others that we may pursue, may subject us to unanticipated risks or liabilities or disrupt our operations and divert management s attention from day-to-day operations.

Our success depends on our ability to attract and retain key personnel, and our key personnel may not be able to fulfill their roles effectively if we become understaffed.

Our success depends on our ability to attract and retain highly qualified management and technical personnel. Members of our senior management team, such as James Roemer, our Chief Executive Officer, and

Alan Aldworth, our President and Chief Operating Officer, bring substantial industry and management experience to our planning and execution. If they or other key employees were to leave us, and we were unable to find a qualified replacement, our business could be harmed. The industries in which our business groups compete have a high level of employee mobility and aggressive recruiting of skilled personnel.

Our business would suffer if the Internet becomes unable to effectively support our products.

Our business utilizes the online exchange of information and Internet commerce. We cannot predict whether the Internet will continue to be an effective vehicle for delivering our content or conducting our electronic commerce. The Internet infrastructure may be unable to support future demand as the number of users and potential customers for our products, frequency of use and bandwidth requirements continue to increase. Our business may not succeed without the continued development and maintenance of the Internet.

We could experience system failures, software errors or capacity constraints, any of which would cause interruptions in our delivery of electronic content to customers and ultimately may cause us to lose customers.

Any delays or failures in the systems or errors in the software that we use to deliver our electronic content to customers would harm our business. We have occasionally suffered failures of the computer and telecommunication systems that we use to deliver our electronic content to customers. The growth of our customer base, as well as the number of sites we provide, may strain our systems in the future. The systems we currently use to deliver our services to customers (except for external telecommunications systems) are located in our facilities in Michigan and Ohio. Although we maintain property insurance, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures of third party technology used in our products, and we could have no control over remedying these failures. Any failures or problems with our systems or software could force us to incur significant costs to remedy the failure or problem, decrease customer demand for our products, tarnish our reputation and thus harm our business.

Our systems face security risks, and our customers have concerns about their privacy.

Our systems and websites may be vulnerable to unauthorized access by hackers, computer viruses and other disruptive problems. Any security breaches or problems could lead to misappropriation of our customers information, our websites, our intellectual property and other rights, as well as disruption in the use of our systems and websites. Unauthorized access to, as well as denial of, various Internet and online services has occurred and will likely occur again. Any security breach related to our websites could tarnish our reputation and expose us to damages and litigation. We may also incur significant costs to maintain our security precautions or to correct problems caused by security breaches. Further, to maintain these security measures, we will be required to monitor our customers access to our websites which may cause disruption to our customers use of our systems and websites. These disruptions and interruptions could harm our business. In addition, users concern about the security and privacy of data transmissions may inhibit the growth of the Internet and other online services generally, which could diminish the demand for our products used over the Internet.

The occurrence of a fire, flood or other form of natural disaster at certain of our locations would adversely impact our business.

Copies of our microfilm collections are stored at some of our locations. If a fire, flood or similar event were to occur at any of these locations and destroy those collections, our business would be significantly harmed.

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Upon completion of this offering, we will have an estimated $180.0 million of total indebtedness, which could hurt our ability to borrow and utilize cash flow as necessary and restrict our operations.

Upon completion of this offering, assuming an offering price of $37.30 per share, we expect to have a ratio of debt to equity of 2.48. All of our borrowings under our senior credit facility are due December 31, 2003. A change in the credit markets could adversely affect our ability to refinance this debt. In addition, the degree to which we are leveraged could have important consequences, including the following:

- our ability to borrow may be limited and additional amounts for working capital and capital expenditures may not be available;
- a substantial portion of our cash flows must be used to pay our interest expense and repay our debt, which reduces the funds that would otherwise be available for our operations or product development;
- we may be more vulnerable to economic downturns and competitive pressures and may have reduced flexibility in responding to changing business, regulatory and economic conditions; and
- fluctuations in market interest rates will affect the cost of our borrowings to the extent not covered by interest rate hedge agreements.

In addition, our senior credit facility contains numerous covenants imposing financial and operating restrictions on our business. These restrictions may affect our ability to operate our business and may limit our ability to take advantage of potential business opportunities as they arise. Our ability to satisfy the financial ratios and tests and other provisions contained in our senior credit facility could be affected by changes in economic or business conditions or other events beyond our control. Any failure to comply with the obligations in our senior credit facility could result in an event of default under this facility, which, if not cured or waived, could permit acceleration of our indebtedness and have a material adverse effect on us.

Unless we maintain a strong brand identity, our business may not grow as anticipated.

We believe that maintaining and enhancing our brands, such as ProQuest, XanEdu and ABI/Inform, is important to attracting and retaining customers. Our success in growing brand awareness will depend in part on our ability to continually provide information access technology that enhances the learning process. There are other entities using the name Proquest. Some of these entities may offer goods and services similar to those offered by us, which may diminish the value of our brand. In addition, some of our brand names are new or have changed, and we may not have any success in maintaining and growing our brand equity. For example, we recently changed the name of our Bell & Howell Publishing Services group to ProQuest Business Solutions, and we must transition the association of the product brands in that group to this new name.

We may be subject to government regulation and legal liabilities that may be costly and may interfere with our ability to conduct business.

Because of the increasing use of the Internet, federal and state governments may adopt laws or regulations regarding commercial online services, the Internet, user privacy, intellectual property rights, content regulation and taxation. Laws and regulations directly applicable to online commerce or Internet communications are becoming more prevalent and could expose us to substantial liability. For example, recently enacted United States laws, such as the federal Digital Millennium Copyright Act and various federal laws aimed at protecting children and limiting the content made available to them, could expose us to substantial liability. Furthermore, various proposals at the federal, state and local level could impose additional taxes on Internet sales. These laws, regulations and proposals could decrease Internet commerce and other Internet uses and adversely affect the success of our online products. If our business becomes subject to increased government regulation, we could incur costs in complying with such regulations and our business could suffer.

Our operating results continue to fluctuate, and a revenue or earnings shortfall in a particular quarter could have a negative impact on the price of our common stock.

Variations in our operating results occur from time to time as a result of many factors, such as the timing and amount of customers expenditures, our product mix, new product introductions and general economic

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conditions. Our sales cycles are relatively long and depend on factors such as the size of customer orders and the terms of subscription agreements. Consequently, it is difficult to predict if and when we will receive a customer order. Because a high percentage of our expenses are fixed, the timing of customer orders can cause variations in quarterly operating results. Certain customers buying patterns and funding availability generally cause our sales and cash flow to be higher in the fourth quarter of the year. As a result of the difficulty in forecasting our quarterly revenues, our operating results for a quarter may fall below securities analysts expectations, which may cause the price of our common stock to fall abruptly and significantly.

Our stock price may be volatile, and your investment in our stock could decline in value.

Our common stock price has fluctuated significantly in the recent past. In addition, market prices for securities of companies in our industries have been highly volatile and may continue to be highly volatile in the future. Often the volatility in our common stock price is unrelated to our operating performance. As a result of these fluctuations in the price of our common stock, you may not be able to sell your common stock at or above the price you pay for it in the offering.

The number of shares eligible for public sale after this offering could cause our stock price to decline.

The sale of a substantial number of shares of our common stock, or the perception that such sales could occur, could adversely affect prevailing market prices for our common stock. As of May 4, 2002, we had 24,260,893 shares of common stock outstanding and 2,387,485 shares of common stock reserved for issuance upon the exercise of options granted under our stock options plans. Substantially all of these shares are eligible for immediate sale in the public market. Further, pursuant to a shelf registration statement, we registered 4,362,999 shares of our common stock held by Keystone, Inc., 1,750,000 of which will be sold in this offering. These registered shares are now freely tradable, unless purchased by certain of our affiliates, and may be sold by Keystone at any time.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements under Prospectus Summary, Risk Factors, Use of Proceeds, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and elsewhere contained or incorporated by reference in this prospectus constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our markets actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These risks and other factors include, among other things, those listed under Risk Factors and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, potential, continue, projects, intends or the negative of such terms or other similar terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined under Risk Factors. These factors may cause our actual results to differ materially from any forward-looking statement. We are under no obligation to update or revise any of these forward-looking statements.

This prospectus includes estimates made by independent parties relating to market size and growth. Those estimates involve a number of assumptions and limitations. We cannot assure you that those estimates of market size are accurate or that those projections of market growth will be achieved. Therefore, we caution you not to unduly rely on this data.

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USE OF PROCEEDS

We estimate that our net proceeds from the sale of 3,000,000 shares of common stock we are offering will be approximately $105.6 million (or approximately $130.4 million if the underwriters over-allotment option is exercised in full), at an assumed public offering price of $37.30 per share (the closing price of our common stock on the New York Stock Exchange on June 10, 2002), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares by the selling shareholders.

We intend to use the net proceeds of this offering to repay outstanding indebtedness under our credit facility. Our credit facility had a weighted average interest rate of 6.19% for the year ended December 29, 2001, and matures on December 31, 2003. In addition, we entered into interest rate swap agreements relating to interest payments made under our credit facility, which increased the effective interest rate to 7.79%. The resulting increased availability under our credit agreement will provide us with funds to pursue strategic acquisitions, joint ventures or other investments if we are able to identify suitable opportunities.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the New York Stock Exchange under the symbol PQE. The following table sets forth, for the fiscal quarters indicated, the high and low last reported sale price per share of our common stock as reported on the New York Stock Exchange.

2000	**High**	**Low**
First Quarter	$ 38.75	$ 29.63
Second Quarter	32.13	19.88
Third Quarter	26.06	19.69
Fourth Quarter	21.94	15.13
2001		
First Quarter	$ 23.60	$ 16.44
Second Quarter	31.00	21.70
Third Quarter	36.50	28.20
Fourth Quarter	34.80	29.94
2002		
First Quarter	$ 43.35	$ 33.78
Second Quarter (through June 10, 2002)	42.90	36.55

As of May 15, 2002, there were approximately 125 shareholders of record of our common stock. The last reported sale price of our common stock on June 10, 2002 was $37.30.

DIVIDEND POLICY

To date, we have not declared or paid cash dividends to our shareholders. We have no plans to declare or pay cash dividends in the near future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon, among other factors, our results of operations, financial conditions, capital requirements and contractual restrictions. Our credit agreement contains certain restrictions on the payment of dividends on and repurchases of our common stock.

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CAPITALIZATION

The following table sets forth our actual capitalization as of March 30, 2002. It also sets forth our capitalization on an as adjusted basis for the sale of 3,000,000 shares of common stock by us at an assumed public offering price of $37.30 per share, after deducting estimated underwriting discounts and commissions and offering expenses and the application of the estimated net proceeds from the offering. See Use of Proceeds.

	As of March 30, 2002	
	Actual	As Adjusted
	(Dollars in thousands, except share and per share data)	
Cash and cash equivalents	$ 1,644	$ 1,644
Current maturities of long-term debt	$ 10,599	$
Long-term debt, less current maturities	275,000	180,044
Total debt	$ 285,599	$ 180,044
Shareholders equity:		
Common stock, par value $0.001 per share (50,000,000 shares authorized; 24,669,428 shares issued and 24,219,428 shares outstanding; and 27,669,428 shares issued and 27,219,428 shares outstanding as adjusted)	$ 24	$ 27
Capital surplus	171,473	277,025
Treasury stock	(11,529)	(11,529)
Retained earnings (accumulated deficit)	(192,506)	(193,024)
Notes receivable for stock purchases	(683)	(683)
Accumulated other comprehensive gain (loss)	(4,655)	(4,137)
Total shareholders equity (deficit)	(37,876)	67,652
Total capitalization	$ 247,723	$ 247,723

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The following selected consolidated financial and operating data have been derived from our audited consolidated financial statements as of the end of and for each of the fiscal years in the five-year period ended December 29, 2001 and from our unaudited financial statements as of the end of and for the quarters ended March 30, 2002 and March 31, 2001. You should read Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the accompanying notes included or incorporated by reference in this prospectus. The historical financial data may not be indicative of our future performance.

	First Quarter		Fiscal				
	2002	2001	2001	2000	1999	1998	1997
	(unaudited)		(Dollars in thousands, except per share data)				
Continuing Operations Data (1) (2):							
Net sales	$ 102,752	$ 95,853	$ 401,628	$ 374,301	$ 359,460	$ 321,047	$ 307,050
Cost of sales	(47,750)	(47,140)	(186,963)	(189,196)	(182,300)	(159,335)	(152,520)
Gross profit	55,002	48,713	214,665	185,105	177,160	161,712	154,530
Research and development expense	(4,956)	(5,082)	(21,381)	(19,034)	(19,259)	(19,974)	(18,894)
Selling and administrative expense	(29,528)	(29,390)	(124,546)	(123,642)	(115,732)	(102,302)	(97,220)
Restructuring charge				(5,196)	(10,505)		
Gain/(loss) on sales of assets			(2,312)	2,726	5,152		
Earnings from continuing operations before interest, income taxes, equity in loss of affiliate and cumulative effect of a change in accounting principle	20,518	14,241	66,426	39,959	36,816	39,436	38,416
Net interest expense	(7,166)	(6,078)	(25,039)	(28,361)	(10,132)	(14,165)	(22,389)
Income tax expense	(5,074)	(3,265)	(15,727)	(4,639)	(10,674)	(10,108)	(6,411)
Equity in loss of affiliate		(5,471)	(13,374)	(20,848)	(950)		
Earnings (loss) from continuing operations before cumulative effect of a change in accounting principle	$ 8,278	$ (573)	$ 12,286	$ (13,889)	$ 15,060	$ 15,163	$ 9,616
Diluted earnings (loss) from continuing operations before cumulative effect of a change in accounting principle, per common share	$ 0.34	$ (0.02)	$ 0.51	$ (0.59)	$ 0.64	$ 0.64	$ 0.48
Other Continuing Operations Data:							
Gross profit as a percent of net sales	53.5%	50.8%	53.4%	49.5%	49.3%	50.4%	50.3%
EBITDA (3)	32,635	27,956	121,650	93,797	86,407	79,357	75,847
EBITDA as a percent of net sales	31.8%	29.2%	30.3%	25.1%	24.0%	24.7%	24.7%

Capital expenditures	15,588	12,503	52,924	42,623	35,055	29,874	28,181
Cash flow provided by (used in):							
Operating activities	(14,993)	472	25,641	42,056	29,023	92,011	20,947
Investing activities	(18,205)	112,497	206,301	(49,717)	(124,254)	(29,874)	(55,018)
Financing activities	34,450	(104,592)	(252,388)	(14,236)	90,527	(53,559)	32,702

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	At the End of First Quarter	At the End of Fiscal				
	2002	2001	2000	1999	1998	1997
			(Dollars in thousands)			
Balance Sheet Data (2):						
Cash and cash equivalents	$ 1,644	$ 2,659	$ 10,610	$ 4,773	$ 18,074	$ 13,339
Total assets	626,921	628,097	806,586	783,812	657,598	633,495
Long-term debt, less current maturities	275,000	252,782	501,821	506,783	445,240	497,252
Total shareholders equity (deficit)	(37,876)	(45,072)	(69,659)	(1,965)	(29,222)	(64,548)

(1) In December 1999, we adopted a plan to divest our Imaging, Mail and Messaging Technologies and finance-related businesses. Accordingly, the operating results of these businesses have been segregated from our continuing operations, and are separately reported as discontinued operations in our consolidated financial statements.

(2) Excludes extraordinary losses of $28.9 million in fiscal 1997 related to a debt refinancing, and cumulative effect of a change in accounting principle of $65.3 million in fiscal 2000 related to a change in the method of revenue recognition pursuant to SAB 101. The fiscal 1997 to 1999 results have not been retroactively restated to reflect the impact of this change. During fiscal 2000, we changed our method of accounting for certain inventory costs from LIFO to FIFO. See Note 1 to our consolidated financial statements included elsewhere in this prospectus. The fiscal 1997 to 1999 operating and balance sheet data have been retroactively restated to reflect this change in accounting.

(3) EBITDA is defined as earnings from continuing operations before interest and income taxes, net of equity in loss of affiliate and cumulative effect of a change in accounting principle, and excluding restructuring charges and gain/loss on sales of assets, plus depreciation and amortization of other long-term assets, but excluding the amortization/write-off of deferred financing costs. EBITDA is generally regarded as providing useful information regarding a company s financial performance, but it is not a measure of financial performance under generally accepted accounting principles. EBITDA should not be considered in isolation from or as a substitute for net earnings (loss) as a measure of our profitability, or as an alternative to our cash flow from operating activities determined under generally accepted accounting principles as a measure of liquidity. Additionally, our calculation of EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA has been included as a supplemental disclosure because it provides useful information about how management assesses our ability to service debt and to fund capital expenditures. Our ability to service debt and fund capital expenditures in the future, however, may be affected by other operating or legal requirements.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section should be read in conjunction with our consolidated financial statements and the notes thereto included or incorporated by reference in this prospectus.

Overview

We are a leading provider of value-added information and content to the library and education, and automotive and powersports industries. Formerly known as Bell & Howell, we have a 97-year history with more than 50 years in information and content aggregation. We provide products and services to our customers through two business groups: Information & Learning and Business Solutions. Through our Information & Learning group, which primarily serves the library and education markets, we aggregate and publish value-added content from a wide range of sources, including newspapers, periodicals and books. Our Business Solutions group, formerly known as Bell & Howell Publishing Services, is primarily engaged in the delivery of comprehensive parts information to the automotive market. It also provides dealers in the powersports (motorcycle, marine and RV) markets with management systems that enable them to better manage inventory, customer service and other aspects of their businesses. We have demonstrated strong, stable growth in both revenue and earnings in the last few years with 2001 revenue increasing to $401.6 million from $359.5 million in 1999, and 2001 earnings from continuing operations, before interest, income taxes, equity in loss of affiliate and cumulative effect of a change in accounting principle, increasing to $66.4 million from $36.8 million in 1999.

Our predecessor company, Bell & Howell, has been synonymous with creative and technology-based solutions since 1904. In 2001, we sold our legacy Imaging, Mail and Messaging Technologies and finance-related businesses and changed our name to ProQuest Company. We used the proceeds from the divestitures to significantly reduce our debt.

Discontinued Operations

In the first quarter of 2000, we began plans to divest our Imaging, Mail and Messaging Technologies and finance-related businesses. Accordingly, the operating results of these businesses have been segregated from our continuing operations and are separately reported as discontinued operations in the consolidated financial statements. We completed our divestiture plan in fiscal 2001.

Financial information for each of our business segments and operations by geographic area is contained in Note 2 to our consolidated financial statements included elsewhere in this prospectus.

Revenue

We derive revenues from licenses of database content (electronic products), sales of microform (microfilm and microfiche) subscriptions, service, software and equipment.

Our Information & Learning group 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. Information & Learning also sells products where revenue is recognized when product is shipped. These products include microform newspaper and periodical backfiles, research collections, out-of-print books, dissertation copies and dissertation publishing.

Our Business Solutions group provides electronic parts catalogs (EPCs) and dealer performance applications to automotive dealerships and also provides dealer management systems to powersports dealerships. Parts catalog products are generally sold under multiple-element arrangements that include an EPC database and

retrieval system, an agreement to provide periodic updates to the EPC database over the term of the arrangement, specified services, and hardware and related operating systems software. We allocate 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.

We account for the hardware and related operating systems software element as a sales-type lease, and recognize 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.

Cost of Sales

Cost of sales consists of product and service costs. Product costs include production costs, depreciation of electronic and microfilm product masters, amortization of capitalized software costs, royalties for the use of content, Internet hosting costs and technical support costs. Service costs consist primarily of installation and training costs, including personnel, materials, facilities and travel costs. Except for costs associated with capitalized product development and software, the costs of sales are generally recognized as incurred.

Research and Development Expense

We expense all software development costs associated with products until technological feasibility is established. In general, we have not historically capitalized significant amounts of these costs. Our research and development expenditures include expenses primarily for database development and information delivery systems.

Selling and Administrative Expense

Our sales and marketing expenses primarily consist of salaries and compensation paid to employees engaged in sales and marketing activities, advertising and promotional materials, public relations costs and travel. Selling and administrative expenses principally consist of salaries and compensation paid to our executives and other employees, as well as incidental costs incurred in managing our business.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates which could have a material impact on our financial statements. Our significant accounting policies are described in Note 1 to our consolidated financial statements. We believe that our most critical accounting policies include accounting for income taxes and risk of impairment of goodwill and product masters.

Income Taxes

Significant judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and valuation allowance recorded against the net deferred tax assets. In determining the realizability of

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deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As of December 29, 2001, management believed it more likely than not that we will realize the benefits of these deductible differences, net of the existing valuation allowances. However, the amount of the deferred tax asset considered realizable could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced.

Risk of Impairment on Goodwill and Product Masters

We review the carrying value of goodwill and other intangible assets and product masters for impairment whenever events or changes in circumstances indicate that the net book value of an asset may not be recoverable from the estimated undiscounted future cash flows expected to result from its use and eventual disposition. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment is measured by the amount by which the carrying amount of the assets exceeds the fair value as estimated by discounted cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost of disposal.

Results of Operations

The following table sets forth in dollars and as a percentage of net sales continuing operations financial data, excluding the cumulative effect of a change in accounting principle and the related tax impact:

	First Quarter				Fiscal					
	2002		2001		2001		2000		1999	
	(Dollars in millions)									
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
Net sales	$ 102.8	100.0%	$ 95.9	100.0%	$ 401.6	100.0%	$ 374.3	100.0%	$ 359.5	100.0%
Cost of sales	(47.8)	46.5%	(47.1)	49.1%	(187.0)	46.6%	(189.2)	50.5%	(182.3)	50.7%
Gross profit	55.0	53.5%	48.8	50.9%	214.6	53.4%	185.1	49.5%	177.2	49.3%
Research and development expense	(5.0)	4.9%	(5.1)	5.3%	(21.4)	5.3%	(19.0)	5.1%	(19.3)	5.4%
Selling and administrative expense	(29.5)	28.7%	(29.5)	30.8%	(124.5)	31.0%	(123.7)	33.0%	(115.7)	32.2%
Restructuring charge							(5.2)	1.4%	(10.5)	2.9%
Gain/(loss) on sales of assets					(2.3)	0.6%	2.7	0.7%	5.2	1.4%
Earnings from continuing operations before interest, income taxes, equity in loss of affiliate and cumulative effect of a change in accounting principle	20.5	19.9%	14.2	14.8%	66.4	16.5%	39.9	10.7%	36.9	10.2%
Net interest expense	(7.2)	7.0%	(6.1)	6.3%	(25.0)	6.2%	(28.4)	7.6%	(10.1)	2.8%
Income tax expense	(5.0)	4.9%	(3.2)	3.3%	(15.7)	3.9%	(4.6)	1.3%	(10.7)	3.0%
Equity in loss of affiliate			(5.5)	5.7%	(13.4)	3.3%	(20.8)	5.6%	(1.0)	0.3%
Earnings from continuing operations, before cumulative effect of a change in accounting principle	$ 8.3	8.1%	$ (0.6)	0.6%	$ 12.3	3.1%	$ (13.9)	3.7%	$ 15.1	4.2%

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First Quarter of Fiscal 2002 Compared to First Quarter of Fiscal 2001

Net Sales

	First Quarter	
	2002	2001
Information & Learning	$ 60.3	$ 55.9
Business Solutions	42.5	40.0
Total	$ 102.8	$ 95.9

Our net sales from continuing operations increased $6.9 million, or 7.2%, to $102.8 million in the first quarter of fiscal 2002. Information & Learning s revenue increased $4.4 million, or 7.9%, to $60.3 million primarily as a result of a 15.4% increase in sales of electronic products. The growth in electronic products is demonstrated by the growth of the annualized online subscription contract value. Annualized online subscription contract value is the projected 12-month revenue from all outstanding online subscription contracts. The total annualized online subscription value was $90.4 million and $79.4 million in the first quarter of fiscal 2002 and 2001, respectively, an increase of 13.9%.

Business Solutions revenue increased $2.5 million, or 6.3%, to $42.5 million in the first quarter of fiscal 2002. This increase is primarily due to continued strong sales of automotive electronic parts catalogs, which grew 8.1%.

Cost of Sales

	First Quarter	
	2002	2001
Information & Learning	$ 32.1	$ 31.3
Business Solutions		