PROQUEST CO
Form 10-Q
November 12, 2002

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 28, 2002	Commission file number 1-3246

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	36-3580106 (I.R.S. Employer Identification No.)
300 North Zeeb Road, Ann Arbor, Michigan (Address of Principal Executive Offices)	48103-1553 (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 4, 2002 was 28,005,019.

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

	Thirteen Weeks Ended	
	Sept. 28, 2002	Sept. 29, 2001
Net sales	$ 106,370	$ 98,617
Cost of sales	(52,094)	(44,554)
Gross profit	54,276	54,063
Research and development expense	(4,364)	(5,365)
Selling and administrative expense	(28,010)	(32,951)
Earnings from continuing operations before interest, income taxes and equity in loss of affiliate	21,902	15,747
Net interest expense:		
Interest income	1,000	35

Interest expense	(13,286)	(6,297)
Net interest expense	(12,286)	(6,262)
Earnings from continuing operations before income taxes and equity in loss of affiliate	9,616	9,485
Income tax expense	(3,654)	(3,794)
Equity in loss of affiliate	-	(1,802)
Earnings from continuing operations	5,962	3,889
Discontinued Operations:		
Earnings from discontinued operations, net (less applicable income taxes of $0, $534, $0 and $1,937 respectively)	-	800
(Loss) gain on sales of discontinued operations, net, (less applicable income taxes (benefit) of $0, ($23,458), $0 and $5,598 respectively)	-	(35,187)
Net earnings (loss)	5,962	(30,498)
Net earnings (loss) per common share:		
Basic:		
Earnings from continuing operations	0.21	0.16
Earnings from discontinued operations	-	0.03
(Loss) gain on sales of discontinued operations	-	(1.47)
Net earnings (loss)	0.21	(1.28)
Diluted:		
Earnings from continuing operations	0.21	0.16
Earnings from discontinued operations	-	0.03
(Loss) gain on sales of discontinued operations	-	(1.45)
Net earnings (loss)	0.21	(1.26)
Average number of common shares and equivalents outstanding:		
Basic	27,993	23,865
Diluted	28,343	24,271

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

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ProQuest Company and Subsidiaries
Consolidated Balance Sheets
(In thousands)
(Unaudited)

ASSETS

	Sept. 28, 2002	D
Current assets:		

Cash and cash equivalents	$ 1,110
Accounts receivable, net	111,313
Inventory	4,127
Other current assets	43,832
Total current assets	160,382
Property, plant, equipment and product masters, at cost	486,799
Accumulated depreciation	(320,882)
Net property, plant, equipment and product masters	165,917
Long-term receivables	2,730
Goodwill	243,209
Other assets	102,489
Total assets	$ 674,727
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Notes payable	$ 19
Current maturities of long-term debt	138
Accounts payable	39,728
Accrued expenses	45,004
Current portion of long-term deferred income	27,223
Deferred income	105,290
Total current liabilities	217,402
Long-term liabilities:	
Long-term debt, less current maturities	209,361
Long-term deferred income	51,711
Other liabilities	86,134
Total long-term liabilities	347,206
Shareholders' equity:	
Common stock, $.001 par value, 28,455 issued and 28,005 outstanding at September 28, 2002, 24,546 shares issued and 24,096 shares outstanding at December 29, 2001, and 24,381 shares issued and 23,939 shares outstanding at September 29, 2001	28
Capital surplus	296,924
Notes receivable from executives	(674)
Retained earnings (accumulated deficit)	(171,460)
Treasury stock	(11,529)
Other comprehensive income (loss):	
Accumulated foreign currency translation adjustment	(2,220)
Unrealized loss from derivatives	(950)
Accumulated other comprehensive loss	(3,170)

Total shareholders' equity (deficit)	110,119	
Total liabilities and shareholders' equity	$ 674,727	$

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

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

	Thirty-N
	September 28, 2002
Operating activities:	
Earnings from continuing operations	$ 24,391
Adjustments to reconcile net earnings to net cash used in operating activities:	
Equity in loss of affiliate	-
Depreciation and amortization	35,057
Deferred income taxes	13,234
Interest expense due to swap settlement	7,414
Changes in operating assets and liabilities:	
Accounts receivable, net	(24,229)
Inventory	352
Other current assets	(10,155)
Long-term receivables	(1,280)
Other assets	(19,317)
Accounts payable	(1,507)
Accrued expenses	(22,017)
Deferred income	(12,578)
Long-term deferred income	(9,947)
Other long-term liabilities	(3,547)
Other, net	460
Net cash used in continuing operations	(23,669)
Investing activities:	
Expenditures for property, plant, equipment and product masters	(42,532)
Acquisitions, net of cash acquired	(4,751)
Proceeds from sales of discontinued operations	-
Cash paid for settlement of interest rate derivative contracts	(9,765)
Net cash (used in) provided by investing activities	(57,048)

Financing activities:	
Net decrease in short-term debt	(827)
Proceeds from long-term debt	363,470
Repayment of long-term debt	(407,045)
Proceeds from sales of common stock, net	123,295
Proceeds from exercise of stock options, net	4,583
Net cash provided by (used in) financing activities	83,476
Net cash provided by discontinued operations	-
Effect of exchange rate changes on cash	(2,144)
Increase in cash and cash equivalents	615
Cash and cash equivalents, beginning of period	495
Cash and cash equivalents, end of period	$ 1,110

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

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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, including Information & Learning ("I&L") and ProQuest Business Solutions ("PBS"), 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 2001 consolidated financial statements have been made to conform to the 2002 presentation. We believe 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 our annual report for the fiscal year ended December 29, 2001.

In the first quarter of fiscal 2000, we adopted a plan to divest the Mail and Messaging Technologies and Imaging businesses and our financing subsidiary. During 2001, we completed these divestitures. In 2001, the operating results of these businesses have been segregated from our continuing operations.

Note 2 - Significant Accounting Policies

Accounts Receivable. Accounts receivable are stated net of the allowance for doubtful accounts which was $1,585, $1,353 and $1,590 at September 28, 2002, December 29, 2001 and September 29, 2001, respectively.

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.

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

	September 28, 2002	December 29, 2001	September 29, 2001
Finished products	$ 1,513	$ 1,821	$ 2,085
Products in process and materials	2,614	2,620	2,948
Total Inventory	$ 4,127	$ 4,441	$ 5,033

Property, Plant, Equipment, and Product Masters. Property, plant, equipment, and product masters are recorded at cost. The straight-line method of depreciation is primarily used, except for I&L product masters (which represent the cost to create electronic and microform master document copies), which are depreciated on the double declining balance method. Estimated lives range from 10 to 40 years for buildings and building improvements, 3 to 15 years for machinery and equipment and 10 years for product masters. The carrying value of the product masters is $125,634 (net of $224,038 of depreciation), $104,701 (net of $202,514 of depreciation) and $99,892 (net of $196,442 of depreciation) at September 28, 2002, December 29, 2001 and September 29, 2001, respectively.

Derivative Financial Instruments and Hedging Activities. All derivative instruments are recognized as assets or liabilities in the balance sheet and measured at fair value.

In the past, all of our interest bearing loans and borrowings were subject to interest rate risk. As part of our risk management program, we utilized US dollar interest rate swaps and designated them as cash flow hedges of the US dollar LIBOR interest rate debt issuances.

During the third quarter of fiscal 2002, we dedesignated and settled $200 million notional amount of interest rate swaps as a result of our debt refinancing (see Note 11). As a result, we recognized an additional $8,272 in interest expense.

Also in anticipation of our debt refinancing, (see Note 11) we entered into Treasury Rate Locks ("locks") in August 2002 with the notional amount of $75 million. These locks effectively fixed the underlying treasury rate for the pricing of our private placement at 3.67%. These locks settled on September 17, 2002, the same day our private placement deal was priced. The unrealized loss of these locks in the amount of $950 (net of tax) is recorded in Other Comprehensive Income, and will be recognized over the life of the notes.

Approximately $0.2 million of net derivative losses included in other comprehensive income at September 28, 2002 will be reclassified into earnings within twelve months from that date.

During the third quarter of 2001, we dedesignated $150 million of notional amount swaps due to the sale of discontinued operations (see Note 3). The Company recognized an additional $6

million (net of tax) expense as a result of the dedesignation of these cash flow hedges, and reported it in the (loss) gain on sales of discontinued operations.

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 period indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 28, 2002	September 29, 2001	September 28, 2002	September 29, 2001
Basic	27,993	23,865	25,581	23,735
Dilutive effect of stock options	350	406	475	271
Diluted	28,343	24,271	26,056	24,006

Note 3 - Discontinued Operations

The net (loss) gain resulting from the sales of the Imaging and MMT International businesses and the North American MMT business, the scanner equipment business and the financing subsidiary in 2001 was derived as follows:

	September 29, 2001	
	Thirteen Weeks Ended	Thirty-Nine Weeks Ended
Purchase price	$ 145,000	$ 331,000
Net assets, reserves, and expenses	(203,645)	(317,006)
(Loss) gain on sales	$ (58,645)	$ 13,994

Income tax benefit (expense)	23,458	(5,598)
(Loss) gain on sales of discontinued operations, net of tax	$ (35,187)	$ 8,396

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

	Thirteen Weeks Ended September 29, 2001				Thirty-Nine Week	
	MMT N.A. & BHFS	Imaging	MMT Intl.	Total Disc. Ops.	MMT N.A. & BHFS	Imaging
Net sales	$ 83,719	$ -	$ -	$ 83,719	$ 258,311	$ 10,92
EBIT (1)	$ 3,877	$ -	$ -	$ 3,877	$ 12,993	$ 1,13
Interest expense				(2,543)		
Earnings before income tax				$ 1,334		
Income tax expense				$ (534)		
Earnings from discontinued operations, net				$ 800		

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

Note 4 - Comprehensive Income

Comprehensive income or losses include 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		T
	September 28, 2002	September 29, 2001	Septembe 2002

Net earnings (loss)	$ 5,962	$ (30,498)	$
Other comprehensive income (loss):			
Unrealized gain (loss) from derivative instruments, net of tax	3,587	(1,907)	
Foreign currency translation adjustments	(1,415)	626	
Comprehensive income (loss)	$ 8,134	$ (31,779)	$

The net unrealized gain (loss) on derivative instruments and foreign currency translation adjustments does not impact our current income tax expense.

Note 5 - Segment Reporting

Information concerning our reportable business segments is shown in the tables below for the periods indicated:

	Thirteen Weeks Ended September		
	I&L	PBS	Corp.
Net sales	$ 61,711	$ 44,659	$
Earnings from continuing operations before interest and taxes	11,894	13,234	(3,
Capital expenditures	12,047	695	
Depreciation & amortization	10,459	915	
Total assets	501,477	106,379	66,

	Thirteen Weeks Ended September		
	I&L	PBS	Corp.
Net sales	$ 57,408	$ 41,209	$
Earnings from continuing operations before interest and taxes(1)	8,526	10,113	(2,
Capital expenditures	11,759	1,036	
Depreciation & amortization(2)	11,429	1,248	
Total assets	428,249	109,654	187,

Thirty-Nine Weeks Ended September

	I&L	PBS	Corp.
Net sales	$ 186,910	$ 131,192	$
Earnings from continuing operations before interest and taxes	37,819	37,114	(9,
Capital expenditures	40,544	1,764	
Depreciation & amortization	31,387	3,596	

	Thirty-Nine Weeks Ended September		
	I&L	PBS	Corp.
Net sales	$ 172,821	$ 122,392	$
Earnings from continuing operations before interest and taxes(1)	27,051	28,620	(9,
Capital expenditures	34,010	3,285	
Depreciation & amortization(2)	34,594	5,063	

(1) Excludes equity in loss of affiliate and gain (loss) on sales of discontinued operations.
(2) Excludes amortization/write-off of deferred financing costs.

Note 6 - Investments in Affiliates

We own approximately 38% of bigchalk.com, inc. ("bigchalk") on a fully-diluted basis. bigchalk develops and markets products and services for research, curriculum integration, assessment, peer collaboration and professional development for teachers, librarians and school administrators in the kindergarten through twelfth grade educational community. We account for our investment in bigchalk on the equity method and the carrying value of this investment was $0 at September 28, 2002, December 29, 2001 and September 29, 2001.

We record our equity investment in bigchalk on the consolidated balance sheets within "Other assets" and our share of bigchalk's losses as "Equity in loss of affiliate".

Summarized financial information of bigchalk, which is accounted for as indicated above, is as follows:

Condensed Statements of Operations:

	Thirteen Weeks Ended		Thirty
	September 28, 2002	September 29, 2001	September 28, 2002

Net sales	$ 5,958	$ 7,085	$ 19,952
Gross profit	4,232	4,762	13,852
Loss before income taxes	(2,655)	(6,555)	(7,590
Net loss	(7,619)	(11,822)	(21,896

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Condensed Statements of Financial Condition:

	September 28, 2002	December 2001
Current assets	$ 26,837	$
Non-current assets	11,297	
Total assets	$ 38,134	$
Current liabilities	18,783	
Non-current liabilities	131,344	1
Stockholders' deficit	(111,993)	(
Total liabilities and stockholders' deficit	$ 38,134	$

Note 7 - Goodwill and Other Intangible Assets

In the first quarter of fiscal 2002, we adopted Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis.

The following sets forth a reconciliation of net earnings and earnings per share information adjusted for the non-amortization provisions for SFAS No. 142 for the periods indicated:

	Thirteen Weeks Ended	
	September 28, 2002	September 29, 2001
Earnings from continuing operations	$ 5,962	$ 3,889
Earnings from discontinued operations, net of tax	-	800
(Loss) gain on sales of discontinued		

operations, net of tax	-	(35,187)
Add back: Goodwill amortization, net of tax	-	1,231
Adjusted net earnings (loss)	$ 5,962	$ (29,267)

	Thirteen Weeks Ended	
	September 28, 2002	September 29, 2001
Basic net earnings per share:		
Earnings from continuing operations	$ 0.21	$ 0.16
Earnings from discontinued operations	-	0.03
(Loss) gain on sales of discontinued operations	-	(1.47)
Add back: Goodwill amortization	-	0.05
Adjusted basic net earnings (loss) per share	$ 0.21	$ (1.23)

	Thirteen Weeks Ended	
	September 28, 2002	September 29, 2001
Diluted net earnings per share:		
Earnings from continuing operations	$ 0.21	$ 0.16
Earnings from discontinued operations	-	0.03
(Loss) gain on sales of discontinued operations	-	(1.45)
Add back: Goodwill amortization	-	0.05
Adjusted diluted net earnings (loss) per share	$ 0.21	$ (1.21)

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The changes in the carrying amount of goodwill for the thirty-nine weeks ended September 28, 2002 are as follows:

	I&L	PBS	Total
Balance as of December 30, 2001	$ 183,948	$47,585	$ 231,533
Reclassification of goodwill previously included in other assets	2,054	-	2,054
Goodwill acquired (1)	9,622	-	9,622

Balance as of September 28, 2002	$ 195,624	$47,585	$ 243,209

(1) Goodwill consists of current year acquisitions as well as the finalization of our preliminary purchase price allocations for acquisitions.

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Note 8 - Other Assets

Other assets at September 28, 2002, December 29, 2001 and September 29, 2001 consisted of the following:

	As of		
	September 28, 2002	December 29, 2001	September 29, 2001
Long-term deferred tax asset	$ 35,653	$ 35,653	$ 23,808
Licenses, net	12,939	10,939	10,588
Purchased / developed software, net	43,571	33,995	31,287
Long-term commissions	4,914	5,277	5,394
Other	5,412	3,362	3,620
Total	$ 102,489	$ 89,226	$ 74,697

Note 9 - Other Liabilities

Other liabilities at September 28, 2002, December 29, 2001 and September 29, 2001 consisted of the following:

	As of		
	September 28, 2002	December 29, 2001	September 29, 2001
Deferred incentive compensation	$ 38,667	$ 42,841	$ 50,921
Interest rate swaps	-	10,093	20,137
Deferred taxes	47,394	37,162	47,230
Other	73	266	968
Total	$ 86,134	$ 90,362	$ 119,256

Note 10 - Stock Offering

On June 21, 2002, we successfully completed a secondary stock offering of 3.7 million shares of $.001 par value common stock at a price of $35.40 per share in which we received net proceeds of $123.3 million, after offering expenses.

Note 11 - Debt Refinancing

On October 3, 2002 we replaced our $375 million fixed rate credit facility with a private placement of $150 million in 5.45% senior notes due October 1, 2012 and a new $175 million variable rate revolving credit facility. This debt refinancing is reflected in the third quarter as it was agreed upon and priced on September 17, 2002 and funded on October 3, 2002.

The proceeds from the sale of these notes and the new facility were used to pay off our current revolving credit facility, and for general corporate purposes.

Interest on the notes is payable semi-annually on April 1 and October 1.

As a result of this debt refinancing, we recorded a one-time charge in the amount of approximately $8.2 million in interest expense related to the dedesignation and settlement of $200 million notional amount of interest rate swaps we had outstanding as part of our previous risk management strategy as well as writing off the remaining deferred fees on the $375 million credit facility.

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 29, 2001.

Safe Harbor for Forward-Looking Statements

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 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, including effects of and rate of acceptance of Internet-based solutions, 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 our filings with the SEC, including without limitation, our Annual Report on Form 10-K for fiscal 2001 and our S-3 filed on June 17, 2002. These factors may cause our actual results to differ from any forward-looking statement.

Results of Operations

Third Quarter of Fiscal 2002 Compared to Third Quarter of Fiscal 2001

	Thirteen Weeks Ended (dollars in millions)					
					Pro Forma (2)	
	Sept. 28, 2002	% of sales	Sept. 29, 2001	% of sales	Sept. 29, 2001	% of sales
Net sales	$106.4	100.0%	$ 98.6	100.0%	$ 98.6	100.0%
Cost of sales	(52.1)	(49.0%)	(44.5)	(45.1%)	(46.1)	(46.8%)
Gross profit	54.3	51.0%	54.1	54.9%	52.5	53.2%
Research and development	(4.4)	(4.1%)	(5.3)	(5.4%)	(5.3)	(5.3%)
Selling and administrative expense	(28.0)	(26.3%)	(33.0)	(33.5%)	(29.4)	(29.8%)
Earnings from continuing operations before interest, income taxes and equity in loss of affiliate	21.9	20.6%	15.8	16.0%	17.8	18.1%
Net interest expense	(12.3)	(11.6%)	(6.3)	(6.4%)	(6.3)	(6.4%)
Income tax expense	(3.6)	(3.4%)	(3.8)	(3.8%)	(4.6)	(4.7%)
Equity in loss of affiliate	-	0.0%	(1.8)	(1.8%)	(1.8)	(1.8%)
Earnings from continuing operations(1)	$ 6.0	5.6%	$ 3.9	4.0%	$ 5.1	5.2%

1) Excludes (loss) gain on sales of discontinued operations and earnings from discontinued operations.
2) Amounts have been adjusted to remove goodwill amortization to assist in comparing the results of operations for the periods presented following the adoption of SFAS No. 142 in the first quarter of fiscal 2002, as well as for the reclassification of expenses at I&L included in selling and administrative for the third quarter of 2001 that are included in cost of sales in 2002.

Net sales.

	Thirteen Weeks Ended

	September 28, 2002	September 29, 2001
I&L	$ 61.7	$ 57.4
PBS	44.7	41.2
Total	$ 106.4	$ 98.6

Our net sales increased $7.8 million, or 7.9%, to $106.4 million in the third quarter of 2002 primarily due to continuing growth in sales of electronic products.

Net sales at I&L increased $4.3 million, or 7.5%, to $61.7 million primarily as a result of a 13.5% increase in sales of electronic products partially offset by flat sales of traditional products (microfilm and paper product). A metric that we use to gauge growth in electronic products is 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 $90.8 million and $85.1 million at third quarter end 2002 and 2001, respectively, an increase of 6.7%.

Net sales of PBS increased $3.5 million, or 8.5%, to $44.7 million in the third quarter of 2002. This increase is primarily due to 13.3% growth in the automotive sector as a result of the completion of the transition of ADP's General Motors dealers to our electronic parts catalog in addition to higher revenues from the automotive installed base. In addition, revenue from Alison and Powersports increased 8.5% and 5.7%, respectively. This increase was partially offset by a $0.9 million decrease in sales at Media Solutions.

Cost of Sales.

	Thirteen Weeks Ended		
	September 28, 2002	September 29, 2001	Pro Forma(1) September 29, 2001
I&L	$ 34.9	$ 29.8	$ 31.4
PBS	17.2	14.7	14.7
Total	$ 52.1	$ 44.5	$ 46.1

(1) Amounts are pro forma for the reclassification at I&L of expenses included in selling and administrative for the third quarter of 2001 that are included in cost of sales in 2002.

Our cost of sales increased $6.0 million to $52.1 million in the third quarter of 2002 compared to the pro forma 2001 results. The gross profit margin (net sales less cost of sales) percentage decreased 220 basis points as a result of pricing pressure in general reference products and higher levels of costs associated with XanEdu coursepacks delivered in paper format.

Research and Development.

	Thirteen Weeks Ended	
	September 28, 2002	September 29, 2001
I&L	$ 2.1	$ 2.4
PBS	2.3	2.9
Total	$ 4.4	$ 5.3

Research and development expense for the third quarter 2002 decreased $0.9 million, or 17.0% to $4.4 million, due to the timing of research and development projects, as well as the completion of the development of Alison's TrackerPac product in 2001 and the decrease in research and development expenditures related to Motorcycleworld.com, which ceased operations in 2001.

Selling and Administrative Expense.

	Thirteen Weeks Ended		
	September 28, 2002	September 29, 2001	Pro Forma(1) September 29, 2001
I&L	$ 12.8	$ 16.6	$ 13.6
PBS	12.0	13.5	12.9
Corporate	3.2	2.9	2.9
Total	$ 28.0	$ 33.0	$ 29.4

(1) Amounts are pro forma to remove goodwill amortization to assist in comparing the results of operations for the periods presented following the adoption of SFAS No. 142 in the first quarter of fiscal 2002, as well as for the reclassification at I&L of expenses included in selling and administrative for the third quarter of 2001 that are included in cost of sales in 2002.

Selling and administrative expense decreased from the pro forma 2001 results by $1.4 million, or 4.8%. The decrease at I&L is due to prudent management of selling expenses. The decrease at PBS is primarily associated with decreased selling and administrative expenses associated with Media Solutions products.

Net Interest Expense.

	Thirteen Weeks Ended	
	September 28, 2002	September 29, 2001
Interest income	$ (1.0)	$ -
Debt	2.5	3.1
Interest rate swaps	8.6	1.0
Monetized contracts	1.8	1.8
Other	0.4	0.4
Total	$ 12.3	$ 6.3

Net interest expense increased $6.0 million, or 95.2%, to $12.3 million in the third quarter of 2002 primarily due to an $8.2 million one-time charge related to the settlement of our interest rate swaps as a result of our debt refinancing. Interest income increased primarily due to accrued income related to a refund on an IRS tax claim. Interest expense related to debt decreased as a result of lower interest rates.

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Nine Months Year-to-Date 2002 Compared to Nine Months Year-to-Date 2001

	Thirty-Nine Weeks Ended (dollars in millions)			
	Sept. 28, 2002	% of sales	Sept. 29, 2001	% of sales
Net sales	$ 318.1	100.0%	$ 295.2	100.
Cost of sales	(151.5)	(47.6%)	(137.2)	(46.
Gross profit	166.6	52.4%	158.0	53.
Research and development	(14.9)	(4.7%)	(15.9)	(5.
Selling and administrative expense	(86.0)	(27.0%)	(95.6)	(32.
Earnings from continuing operations before interest, income taxes and equity in loss of affiliate	65.7	20.7%	46.5	15.
Net interest expense	(26.4)	(8.3%)	(18.6)	(6.
Income tax expense	(14.9)	(4.7%)	(11.2)	(3.
Equity in loss of affiliate	-	0.0%	(13.4)	(4.

Earnings from continuing operations(1)	$ 24.4	7.7%	$ 3.3	1.

(1) Excludes (loss) gain on sales of discontinued operations and earnings from discontinued operations.
(2) Amounts are pro forma to remove goodwill amortization to assist in comparing the results of operations for the periods presented following the adoption of SFAS No. 142 in the first quarter of fiscal 2002, as well as for the reclassification of expenses at I&L included in selling and administrative for the first nine months of 2001 that are included in cost of sales in 2002.

Net sales.

	Thirty-Nine Weeks Ended	
	September 28, 2002	September 29, 2001
I&L	$ 186.9	$ 172.8
PBS	131.2	122.4
Total	$ 318.1	$ 295.2

Our net sales increased $22.9 million, or 7.8%, to $318.1 million in the first nine months of 2002.

Net sales of I&L increased $14.1 million, or 8.2%, to $186.9 million primarily as a result of increasing sales at XanEdu and a 14.3% overall increase in sales of electronic products.

Net sales of PBS increased $8.8 million, or 7.2%, to $131.2 million in the first nine months of 2002. This increase is primarily due to 10.1% growth in the automotive sector as a result of the completion of the transition of ADP's General Motors dealers to our electronic parts catalog in addition to higher revenues from the automotive installed base. In addition, revenue from Alison and Powersports increased 11.2% and 9.3%, respectively. This increase was partially offset by a $2.2 million decrease in sales at Media Solutions.

Cost of Sales.

	Thirty-Nine Weeks Ended		
	September 28, 2002	September 29, 2001	Pro Forma(1) September 29, 2001
I&L	$ 102.1	$ 91.3	$ 96.1
PBS	49.4	45.9	45.9

Total	$ 151.5	$ 137.2	$ 142.0

(1) Amounts are pro forma for the reclassification at I&L of expenses included in selling and administrative for the first nine months of 2001 that are included in cost of sales in 2002.

Our cost of sales increased $9.5 million to $151.5 million in the first nine months of 2002 compared to the pro forma numbers for 2001. The gross profit margin (net sales less cost of sales) percentage increased 50 basis points compared to the adjusted 2001 results due to product mix.

Research and Development.

	Thirty-Nine Weeks Ended	
	September 28, 2002	September 29, 2001
I&L	$ 7.1	$ 7.4
PBS	7.8	8.5
Total	$ 14.9	$ 15.9

Research and development expense for the first nine months of 2002 decreased $1.0 million, or 6.3% to $14.9 million. This decrease is primarily due to the completion of the development of Alison's TrackerPac product in 2001 and the decrease in

research and development expenditures related to Motorcycleworld.com, which ceased operations in 2001.

Selling and Administrative Expense.

	Thirty-Nine Weeks Ended		
	September 28, 2002	September 29, 2001	Pro Forma(1) September 29, 2001
I&L	$ 39.9	$ 47.0	$ 37.9
PBS	36.9	39.4	37.6
Corporate	9.2	9.2	9.2
Total	$ 86.0	$ 95.6	$ 84.7

(1) Amounts are pro forma to remove goodwill amortization to assist in

comparing the results of operations for the periods presented following the adoption of SFAS No. 142 in the first quarter of fiscal 2002, as well as for the reclassification of expenses at I&L included in selling and administrative for the first nine months of 2001 that are included in cost of sales in 2002.

Selling and administrative expense remained relatively flat increasing $1.3 million, or 1.5%, compared to the pro forma 2001 results due to costs related to recent acquisitions.

Net Interest Expense.

	Thirty-Nine Weeks Ended	
	September 28, 2002	September 29, 2001
Interest income	$ (2.2)	$ (0.2)
Debt	9.4	10.1
Interest rate swaps	12.8	1.6
Monetized contracts	5.4	6.0
Other	1.0	1.1
Total	$ 26.4	$ 18.6

Net interest expense increased $7.8 million, or 41.9%, to $26.4 million in the first nine months of 2002 primarily due to an $8.2 million one-time charge taken in the third quarter of 2002 related to the settlement of our interest rate swaps as a result of our debt refinancing as well as the fact that interest expense from interest rate swaps also increased due to a reduction in interest rates. Interest income increased primarily due to accrued income related to a refund on an IRS tax claim. Interest expense related to debt decreased as a result of lower interest rates. Interest related to the PBS monetized contracts decreased due to the reduced level of monetized contracts at PBS.

Income Tax Expense.

For the nine months ended September 28, 2002, income taxes are recorded at an effective rate of 38%. Income tax expense increased in the first nine months of 2002 as a result of the higher level of pretax profit.

Liquidity

Debt (net of cash and cash equivalents) decreased by $44.7 million to $208.4 million in the first nine months of 2002 as a result of the proceeds from the equity offering of $123.3 million, partially offset by cash used in operations and capital expenditures.

In the first nine months of 2002, we utilized cash for operations of $23.7 million. Cash from operations is seasonal with net cash typically utilized in the first half of the year and cash typically generated during the second half of the year. Cash is typically generated in the second half of the year primarily because we bill and collect a significant portion of our annual microfilm subscription fees during late third quarter and fourth quarter.

In addition to the seasonality of our cash flow, there were several items that impacted operating cash flow for the nine month period ended September 28, 2002. During the first nine months, we utilized operating cash of $15.6 million for the payment of working capital adjustments and retained liabilities related to the sales of discontinued operations in the prior year. These payments are one-time in nature and will not happen again.

Also during the first nine months of the year, we utilized cash related to several technology projects in our Digital Vault Initiative and XanEdu production processes as well as our back office order entry system. These projects were undertaken to improve the processes and reduce costs. These projects comprise internal use software and are included in other assets on our balance sheet. We expect that these projects will be substantially completed by year-end.

With regards to our Business Solutions' EPC agreements, we have monetized a portion of the future cash stream generated by these customer contracts. At the time of monetization, we receive a discounted amount from our formerly owned financing subsidiary (Bell & Howell Financial Services, or BHFS). The amount received is recorded as long-term deferred revenue. As the updates and service related to the EPC is delivered to the customer, a portion of the long-term deferred revenue is recognized as revenue and a portion of the discount is recognized as interest expense. As a result of the sale of BHFS and the refinancing of our new credit facility, monetization of the EPC contracts is no longer an effective strategy. We intend to reduce the number of EPC contracts that we monetize with BHFS, while complying with our contractual obligation to monetize a certain portion of EPC contracts through August 2004. As a result, the long-term deferred revenue and current portion of long-term deferred revenue will decline and there will be a cash flow effect. The reduced level of EPC contract monetization had a negative impact on cash flows for the first nine months of 2002 of $9.9 million.

We used $57.0 million of cash in our investing activities for the first nine months of 2002. Capital expenditures increased $5.2 million or 13.9% over the first nine months of 2001, to $42.5 million due to increased expenditures on Historical Newspapers and other digital vault products. Additionally $4.8 million was used in the acquisition of Micromedia and MetaText and $9.8 million was used for the settlement of the interest rate swaps and treasury locks as a result of our debt refinancing.

We believe that current cash balances, cash generated from operations, and availability under our 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. Under ProQuest's $175.0 million revolving credit facility, only $59.4 million was outstanding as of September 28, 2002.

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Financial Condition

Selected Balance Sheet information.

	As of	
	September 28, 2002	December 29, 2001

Accounts receivable, net	$ 111.3	$ 89.7
Other current assets	43.8	33.3
Other assets	102.5	89.2
Accrued expenses	45.0	85.7
Deferred income	105.3	111.9
Other liabilities	86.1	90.4

Accounts receivable increased by $21.6 million during the first nine months ended September 28, 2002, primarily due to microfilm subscriptions being billed shortly before the end of the third quarter.

Other current assets increased primarily due to prepaid royalty payments to publishers and prepaid insurance.

Other assets increased primarily due to payments to content providers and for software licenses and developed software to assist in digitizing products and facilitate back office functions.

The decrease in accrued expenses compared to December 29, 2001 is due to payments made in 2002 related to discontinued operations in addition to the cancellation of the $21.7 million buyers note as part of the working capital settlement on the sale of our MMT North American business, the scanner equipment business and our financing subsidiary.

Deferred income decreased by $6.6 million during the first nine months ended September 28, 2002, due to the timing of subscription billings and a loss of certain general reference database contracts in the third quarter of 2002.

The decrease in other liabilities is mainly attributable to the settlement of $200 million notional amount interest rate swaps in July 2002 as a result of our debt refinancing.

Debt Refinancing

On October 3, 2002 we replaced our $375 million credit facility with a $175 million variable rate revolving credit facility and a private placement of $150 million in 5.45% fixed rate senior notes due October 1, 2012. Interest on the notes is payable semi-annually on April 1 and October 1. This debt refinancing is reflected in the third quarter as it was agreed upon and priced on September 17, 2002 and funded on October 3, 2002.

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The proceeds from the sale of these notes and the new facility were used to pay off the company's current revolving credit facility, and for general corporate purposes.

As a result of this debt refinancing, we recorded a one-time charge in the amount of approximately $8.2 million in interest expense related to settling $200 million notional amount of interest rate swaps we had outstanding as part of our previous risk management strategy as well as writing off the remaining deferred fees on the original revolver loan.

Interest Rate Risk Management

As part of our debt refinancing, we have fixed a portion of our long-term debt. The new revolver loan is variable-rate long-term debt, which exposes us to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases.

We have decided not to hedge this interest rate risk, instead we have limited this risk by refinancing a portion of our debt to 10-year notes with a seven year average life and fixed rate, with a 5.45% fixed coupon rate, and a 5.6% effective rate.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

As a result of our financing activities, we are exposed to changes in interest rates which may adversely effect our results of operations and financial position. We have decided not to hedge this interest rate risk. Instead we have limited this risk by refinancing $150 million of our debt to long-term fixed rate notes with a 5.45% fixed coupon rate and a 5.60% effective rate. These notes have a seven year average life. Our remaining debt is variable-rate long-term debt which exposes us to variability in interest payments due to changes in interest rates.

Foreign Currency Risk

As a result of our global operations, we are exposed to changes in foreign currencies. Our practice is to hedge our significant operating balance sheet exposures to foreign currency rate fluctuations via use of foreign currency forward or option contracts. We do not utilize financial derivatives for trading or other speculative purposes. We have entered into various contracts to buy or sell foreign currencies. The contracts have maturity dates extending through October 2002 and are for an aggregate notional amount of $47.6 million at September 28, 2002. We are exposed to market risk in the event of nonperformance by our counterparties (major international banks) to these contracts; however, such nonperformance is not anticipated. The potential impact on our earnings from a 10% adverse change in quoted foreign currency rates would be insignificant.

Item 4.

Controls and Procedures

Based on recent evaluation, which was completed within 90 days of the filing of this Form 10-Q, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) are effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

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 5.

Other Information

In an effort to provide more disclosure of financial results, we included a quarterly cash flow statement in the third quarter press release. The third quarter net cash provided by operations before unusual items was understated due to the inclusion of some of the exchange rate changes in operating cash flow as opposed to including them in "Effect of exchange rate changes on cash". In the press release cash flow schedule, the nine-month year-to-date figures are correct. In addition, the overall change in cash was correct in the third quarter cash flow statement. The following is a corrected cash flow schedule for the third quarter ended September 28, 2002.

	September 28 2002
Operating activities:	
Pro forma earnings (1)	
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization (2)	
Deferred income taxes	
Changes in operating assets and liabilities:	
Accounts receivable, net	(
Inventory	
Other current assets	
Long-term receivables	
Other assets	(
Accounts payable	
Accrued expenses	
Deferred income	
Other long-term liabilities	
Other, net	
Deferred income - monetized contracts	
Net cash provided by operations before unusual items	
Changes in working capital items related to discontinued operations	
Net cash provided by operations	
Investing activities:	
Expenditures for property, plant, equipment and product masters	(
Acquisitions, net of cash acquired	
Proceeds from sales of discontinued operations	

Cash paid for settlement of interest rate swap contracts	
Net cash (used in) provided by investing activities	(
Financing activities:	
Net decrease in short-term debt	
Net payments of long-term debt	
Proceeds from common stock, net	
Net cash provided by (used in) financing activities	
Net cash used in discontinued operations	
Effect of exchange rate changes on cash	
(Decrease) / increase in cash and cash equivalents	
Cash and cash equivalents, beginning of period	
Cash and cash equivalents, end of period	$

(1) In 2002, amounts have been adjusted to exclude settlement of related interest rate swaps and the write-off of remaining fees on previous revolving credit facility in third quarter of 2002. In 2001, amounts have been adjusted for the equity in loss of affiliate and to remove goodwill amortization to assist in comparing the impact of the adoption of SFAS 142.

(2) In 2001, amounts have been adjusted to remove goodwill amortization to assist in comparing the impact of the adoption of SFAS 142.

Note: Certain reclassifications to the 2001 consolidated financial statements have been made to conform to the 2002 presentation.

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

(a) Exhibits:

Index Number	Description
10.16	Note Purchase Agreement dated as of October 1, 2002 ProQuest Company $150,000,000 5.45% Senior Notes due October 1, 2012.
10.17	Revolving Credit Agreement dated as of October 3, 2002 among ProQuest Company, the lenders listed therein and Banc of America Securities LLC.
99.1	Certification of James P. Roemer, Chairman and Chief Executive Officer of ProQuest Company Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Kevin Gregory, Vice President, Chief Financial Officer and Assistant Secretary of ProQuest Company, Pursuant to 18 U.S.C. Section 1350, As Adopted

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on form 8-K.

None.

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 12, 2002

PROQUEST COMPANY

/s/ James P. Roemer

Chairman and Chief Executive Officer

/s/ Kevin Gregory

Vice President, Chief Financial Officer and Assistant Secretary

CERTIFICATIONS

Certification of Principal Executive Officer

I, James P. Roemer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ProQuest Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the

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registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ James P. Roemer

James P. Roemer
Chairman & Chief
Executive Officer

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Certification of Principal Financial Officer

I, Kevin Gregory, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ProQuest Company;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and

report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 12, 2002

/s/ Kevin Gregory

Kevin Gregory
Vice President, Chief

Financial Officer and
Assistant Secretary