PROQUEST CO
Form 10-Q/A
June 17, 2002

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

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

For the Quarter ended March 30, 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 May 6, 2002 was 24,260,893.

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This Amendment to the Form 10-Q reflects a change in the Company's implementation of SFAS No. 142. See Note 7 to the Consolidated Financial Statements included herein.

ProQuest Company and Subsidiaries
Consolidated Statements of Operations
For the Thirteen Weeks Ended March 30, 2002 and March 31, 2001
(In thousands, except per share amounts)
(Unaudited)

	2002	2001
Net sales	$ 102,752	$ 95,853
Cost of sales	(47,750)	(47,140)
Research and development expense	(4,956)	(5,082)
Selling and administrative expense	(29,528)	(29,390)
Earnings from continuing operations before interest, income taxes, equity in loss of affiliate and discontinued operations	20,518	14,241
Net interest expense:		
Interest income	572	110
Interest expense	(7,738)	(6,188)
Net interest expense	(7,166)	(6,078)
Earnings from continuing operations before income taxes, equity in loss of affiliate and discontinued operations	13,352	8,163
Income tax expense	(5,074)	(3,265)
Equity in loss of affiliate	-	(5,471)

Earnings/(loss) from continuing operations before discontinued operations	8,278	(573)
Earnings from discontinued operations, net of tax	-	2,217
Gain on sale of discontinued operations, net (less applicable income taxes of $0 and $29,056, respectively)	-	43,583
Net earnings	$ 8,278	$ 45,227
Net earnings per common share:		
Basic:		
Earnings from continuing operations before discontinued operations	0.34	(0.02)
Earnings from discontinued operations	-	0.09
Gain from sale of discontinued operations	-	1.85
Diluted:		
Earnings from continuing operations before discontinued operations	0.34	(0.02)
Earnings from discontinued operations	-	0.09
Gain from sale of discontinued operations	-	1.84
Average number of common shares and equivalents outstanding:		
Basic	24,130	23,622
Diluted	24,666	23,670

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

ProQuest Company and Subsidiaries
Consolidated Balance Sheets
As of March 30, 2002 and December 29, 2001
(In thousands)
(Unaudited)

Assets

	2002	2001
Current assets:		
Cash and cash equivalents	$ 1,644	$ 2,659
Accounts receivable, net	78,032	89,726
Inventory	4,443	4,441
Other current assets	38,154	33,283
Total current assets	122,273	130,109
Property, plant, equipment and product masters	458,959	446,872
Accumulated depreciation and amortization	(304,076)	(292,843)
Net property, plant, equipment and product masters	154,883	154,029
Long-term receivables	24,692	23,200
Goodwill and other intangible assets, net of accumulated amortization	239,055	231,533
Other assets	93,974	89,226

Total assets	$ 634,877	$ 628,097

Liabilities and Shareholders' Equity (Deficit)

Current liabilities:		
Notes payable	$ -	$ 564
Current maturities of long-term debt	10,599	292
Accounts payable	36,754	42,633
Accrued expenses	69,159	85,740
Current portion of long-term deferred income	26,656	26,124
Deferred income	101,537	114,739
Total current liabilities	244,705	270,092
Long-term liabilities:		
Long-term debt, less current maturities	275,000	252,782
Long-term deferred income, less current portion	56,286	59,933
Other liabilities	91,829	90,362
Total long-term liabilities	423,115	403,077
Shareholders' equity (deficit):		
Common stock, $.001 par value, 24,669 shares issued and 24,219 shares outstanding at March 30, 2002, and 24,546 shares issued and 24,096 shares outstanding at December 29, 2001	24	24
Capital surplus	171,473	169,050
Notes receivable from executives	(683)	(1,071)
Retained earnings (accumulated deficit)	(187,573)	(195,851)
Treasury stock	(11,529)	(11,335)
Other comprehensive income (loss):		
Accumulated foreign currency translation adjustment	541	1,001
Unrealized loss from derivatives	(5,196)	(6,890)
Accumulated other comprehensive loss	(4,655)	(5,889)
Total shareholders' equity (deficit)	(32,943)	(45,072)
Total liabilities and shareholders' equity	$ 634,877	$ 628,097

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

ProQuest Company and Subsidiaries
Consolidated Statements of Cash Flows
For the Thirteen Weeks Ended March 30, 2002 and March 31, 2001
(In thousands)
(Unaudited)

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Operating Activities:
Earnings/(loss) from continuing operations before cumulative effect of a change in accounting principle .... $

Adjustments to reconcile net earnings/(loss) to net cash provided by (used in) operating activities:
Equity in loss of affiliate ....
Depreciation and amortization ....
Deferred taxes ....

Changes in operating assets and liabilities:
Accounts receivable ....
Inventory ....
Other assets ....
Long-term receivables, net ....
Accounts payable ....
Accrued expenses ....
Deferred income and other long-term liabilities ....
Other, net ....

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Net cash provided by (used in) continuing operations ....

Investing activities:
Expenditures for property, plant, equipment and product masters ....
Acquisitions, net of cash acquired ....
Proceeds from sale of discontinued operations ....

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Net cash provided by (used in) investing activities ....

Financing activities:
Net decrease in short-term debt ....
Proceeds from long-term debt ....
Repayment of long-term debt ....
Proceeds from sales of common stock, net ....

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Net cash provided by (used in) financing activities ....

Net cash used by discontinued operations ....
Effect of exchange rate changes on cash ....

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Increase in cash and cash equivalents ....

Cash and cash equivalents, beginning of period ....

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Cash and cash equivalents, end of period ....

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

ProQuest Company and Subsidiaries

Notes to the Consolidated Financial Statements

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

(Unaudited)

Note 1 - Basis of Presentation

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

As permitted under the Securities and Exchange Commission ("SEC") requirements for interim reporting, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. Certain reclassifications to the 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 the Company's annual report for the fiscal year ended December 29, 2001.

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

Note 2 - Significant Accounting Policies

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Accounts Receivable. Accounts receivable are stated net of the allowance for doubtful accounts which was $1,511 and $1,353 at March 30, 2002 and December 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:

	For the Fiscal Quarter Ended	
	March 30, 2002	December 29, 2001
Finished products	$ 1,575	$ 1,821
Products in process and materials	2,868	2,620
Total inventory	$ 4,443	$ 4,441

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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 Information and Learning ("I&L") product masters (which represent the cost to create electronic and microform master document copies which are subsequently used in the production process to fulfill customers' information requirements), 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 at March 30, 2002 is $115,701 (net of $210,013 of depreciation) and at December 29, 2001 is $104,701 (net of $202,514 of depreciation).

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

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For the first quarter of fiscal 2002, there were no net gains or losses reclassified into earnings as a result of the discontinuance of cash flow hedges. Approximately $6,987 of net derivative losses included in other comprehensive income at March 30, 2002 will be reclassified into earnings within twelve months

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from that date.

The following table summarizes the net activities in other comprehensive income related to derivatives classified as cash flow hedges held by the Company during the first quarter of fiscal 2002:

Balance as of December 29, 2001	$ (6,890)
Net losses reclassified into net earnings	2,596
Year-to-date net unrealized gain on derivatives	406
Income tax expense related to items of other comprehensive income	(1,308)
Total, net of tax	$ (5,196)

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

Thirteen Weeks Ended

	March 30, 2002	March 31, 2001
Basic	24,130	23,622
Dilutive effect of stock options	536	48
Diluted	24,666	23,670

Diluted Earnings / (Loss) Per Common Share from Continuing Operations before Equity in Loss of Affiliate:

Earnings from continuing operations before equity in loss of affiliate and discontinued operations	$ 0.34	$ 0.21
Equity in loss of affiliate	-	(0.23)
Earnings / (loss) from continuing operations before discontinued operations	$ 0.34	$ (0.02)

Note 3 - Discontinued Operations

In the first quarter of fiscal 2000, the Company adopted a plan to divest its Mail and Messaging Technologies (MMT) and Imaging businesses and its financing subsidiary (BHFS).

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Accordingly, the operating results and net assets of these businesses have been segregated from the Company's continuing operations. The Consolidated Statements of Operations separately reflect the earnings of these businesses, which include an allocation of the Company's interest expense. The Company completed the divestiture of all discontinued operations in 2001. In February 2001, the Company sold its Imaging business to Eastman Kodak.

Further, the gain resulting from the sale of the Imaging business was derived as follows:

Purchase price	$135,000
Net assets, reserves, and expenses	(62,361)
Gain on sale	$ 72,639
Income tax expense	(29,056)
Gain on sale of discontinued operation, net of tax	$ 43,583

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

	Thirteen Weeks Ended March 31, 2001			
	MMT N.A & BHFS	Imaging	MMT Intl.	Total Disc. Ops.
Net sales	$ 84,859	$ 10,882	$ 19,779	$ 115,520
Earnings before interest and taxes	5,135	894	166	6,195

Interest expense				(2,500)
Income tax expense				(1,478)
Earnings from discontinued operations				$ 2,217

Note 4 - Comprehensive Income

Comprehensive earnings 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	
	March 30, 2002	March 31, 2001
Net earnings (loss)	8,278	45,227
Other comprehensive income (loss):		
Net unrealized gain / (loss) on derivative instruments ...	1,694	(6,594)
Foreign currency translation adjustments	(460)	767
Comprehensive income	$ 9,512	$ 39,400

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

Note 5 - Segment Reporting

Information concerning the Company's reportable business

segments for the first fiscal quarter of 2002 and 2001:

	2002			
	I&L	PBS	Corp.	Total
Net Sales	$ 60,226	$ 42,526	$ -	$102,752
Earnings from continuing operations before interest and taxes (1).....	12,799	10,805	(3,086)	20,518

	I&L	PBS	Corp.	Total
Capital Expenditures...............	14,789	606	193	15,588
Depreciation and Amortization (2)...	10,607	1,487	23	12,117
Total Assets........................	438,168	103,426	93,283	634,877

	2001			
	I&L	PBS	Corp.	Total
Net Sales	$ 55,914	$ 39,939	$ -	$ 95,853
Earnings from continuing operations before interest and taxes (1).....	9,004	8,538	(3,301)	14,241
Capital Expenditures...............	11,027	1,476	-	12,503
Depreciation and Amortization (2)...	11,509	1,997	209	13,715
Total Assets........................	428,858	104,283	92,792	625,933

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

Note 6 - Investments in Affiliates

The Company owns 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. The Company accounts for its investment in bigchalk on the equity method and the carrying value of this investment was $0 at March 30, 2002.

Summarized financial information of bigchalk is as follows:

Condensed Statement of Operations:

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
Net sales	$ 6,927	$ 7,134
Gross profit	4,692	4,775
Loss before income taxes	(2,760)	(11,534)
Net loss	(2,608)	(11,343)

Condensed Statement of Financial Condition:

	March 30, 2002	December 29, 2001
Current assets	$ 25,341	$ 28,985
Non-current assets	16,110	18,852

Total assets	$ 41,451	$ 47,837
Current liabilities	$ 16,278	$ 20,592
Non-current liabilities	122,559	117,344
Stockholders' deficit	(97,386)	(90,099)
Total liabilities and stockholders' deficit	$ 41,451	$ 47,837

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. As a result of adopting SFAS No. 142, we ceased amortization of goodwill, which is expected to result in an increase in net income of approximately $7.7 million for the year ending December 28, 2002, and performed the first step of the required two-step goodwill impairment test. The first step of the impairment test requires us to compare the fair value of each reporting unit to its carrying value. If the carrying value is higher than the fair value, there is an indication that an impairment may exist; if the carrying value is less than the fair value, no indication of impairment exists and the second step does not need to be completed. If there is an indication of impairment, the second step of the impairment test requires us to allocate the fair value of the reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its fair value. During the first step of the impairment test, no indication of impairment was evident, as determined utilizing various evaluation techniques including discounted cash flow and the Guideline Company Method. Therefore we did not need to complete the second step, and no impairment for goodwill was recorded for the initial adoption of SFAS 142.

The following sets forth a reconciliation of net income and earnings per share information for the thirteen weeks ended March 30, 2002 and March 31, 2001 adjusted for the non-amortization provisions for SFAS No. 142:

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
Earnings/(loss) from continuing operations before discontinued operations............	$ 8,278	$ (573)
Earnings from discontinued operations, net of tax....................................	-	2,217
Gain on sale of discontinued operations......	-	43,583
Add back: Goodwill amortization, net of tax	-	1,183
Adjusted net income.........................	$ 8,278	$ 46,410

Thirteen Weeks

	Ended	
	March 30, 2002	March 31, 2001
Basic earnings per share:		
As reported	$0.34	$(0.02)
Goodwill amortization	-	0.05
Adjusted	$0.34	$ 0.03
Diluted earnings per share:		
As reported	$0.34	$(0.02)
Goodwill amortization	-	0.05
Adjusted	$0.34	$ 0.03

The changes in the carrying amount of goodwill for the thirteen weeks ended March 30, 2002 are as follows:

	I&L	PBS	Total
Balance as of December 30, 2001	$ 183,948	$ 47,585	$ 231,533
Reclass of goodwill previously included in other assets	2,054	-	2,054
Goodwill acquired during the thirteen weeks	5,468	-	5,468
Balance as of March 30, 2002	$ 191,470	$ 47,585	$ 239,055

As part of the implementation of SFAS No. 142 in the first quarter of 2002, we initially identified and reclassified a portion of our goodwill as identifiable intangible assets. A charge of $4.9 million (net of tax of $3.0 million) was initially recorded in the first quarter of 2002 as a cumulative effect of a change in accounting principle for (i) the impairment of certain identifiable assets and (ii) the retroactive application of the change in the remaining useful lives of the remaining reclassified identifiable assets. We also reclassified as goodwill and other intangible assets certain intangible assets not acquired in business combinations that were initially included in other assets. No impairment charge was taken on these assets.

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We subsequently learned of guidance under EITF Topic D-100, Clarification of Paragraph 61(b) of FASB Statement No. 141 and Paragraph 49(b) of FASB Statement No. 142, providing that assets that have not been historically separately stated from goodwill should not be segregated from the underlying goodwill and should be tested for impairment along with goodwill. We therefore reclassified the components of the identifiable intangible assets back to goodwill and performed the goodwill impairment test under SFAS No. 142 and determined that no goodwill impairment occurred. As a result, we revised our financial statements for the quarter ended March 30, 2002 to reflect the correction of these errors. These corrections resulted in the following changes to earnings:

	As previously reported (in thousands)	As corrected (in thousands)
Earnings from continuing operations before cumulative effect of a change in accounting principle	$ 8,278	$ 8,278
Cumulative effect of a change in accounting principle	(4,933)	0
Net earnings	3,345	8,278
Net earnings per basic common share	0.14	0.34
Net earnings per diluted common share	0.14	0.34

We have also made changes to the balance sheet to reflect the reversal of the write-off of identifiable intangible assets that reduced goodwill and intangible assets by $8.0 million, and the reversal of the tax benefit associated with the write-off of $3.0 million. In addition, we also reversed the reclassification of $5.0 million of intangible assets that were not acquired in business combinations which were originally classified as goodwill and other intangible assets in our previously issued consolidated financial statements. These intangible assets are now included in the other assets caption in our consolidated balance sheet. The balance sheet has been changed to reflect these corrections as follows:

	As previously reported (in thousands)	As corrected (in thousands)
Goodwill, and other intangible assets, net of accumulated amortization	$236,056	$239,055
Other assets	89,017	93,974
Other liabilities	88,806	91,829

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 risks, unexpected merger-related effects, business execution risk, risk of new competitors, any necessary regulatory approvals, decreases in funding for Internet access as well as overall acceptance and usage of the Internet in the education and library markets, the availability of free or advertising-supported research information on the Internet, 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 the Company's filings with the SEC, including without limitation, our Annual Report on Form 10-K for fiscal 2001. These factors may cause our actual results to differ from any forward-looking statement. We are under no obligation to update or revise any of these forward-looking statements.

Results of Operations

The following table sets forth continuing operations financial data excluding nonrecurring items which consist of equity in loss of affiliate and discontinued operations:

	Thirteen Weeks Ended (dollars in millions)			
	March 30, 2002	% of sales	March 31, 2001	% of sales
Net sales	$ 102.8	100.0%	$ 95.9	100.0%
Cost of sales..............	47.8	46.5%	47.1	49.1%
Gross profit.................	55.0	53.5%	48.8	50.9%
Less:				
Research and development....	5.0	4.9%	5.1	5.3%
Selling and administrative..	29.5	28.7%	29.5	30.8%
Earnings from continuing operations before interest and taxes..................	20.5	19.9%	14.2	14.8%
Less:				
Net interest expense.......	7.2	7.0%	6.1	6.4%
Income tax expense.........	5.0	4.9%	3.2	3.3%
Earnings from continuing operations(1)..............	8.3	8.1%	4.9	5.1%

(1) Excludes equity in loss of affiliate, gain on sale of discontinued operations and earnings from discontinued operations.

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

Net sales.

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
I&L	$ 60.3	$ 55.9
PBS	42.5	40.0
Total	$ 102.8	$ 95.9

The Company's net sales from continuing operations increased $6.9 million, or 7.2%, to $102.8 million in the first quarter of 2002.

Net sales of I&L 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 at first quarter end 2002 and 2001, respectively, an increase of 13.9%.

Net sales of PBS increased $2.5 million, or 6.3%, to $42.5

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million in the first quarter of 2002. This increase is primarily due to continued strong sales of automotive electronic parts catalogs, which grew 8.1%. There was also an increase in revenue related to dealer management systems as well as Alison new product offerings, partially offset by a decrease in sales at Media Solutions.

Cost of Sales.

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
I&L	$ 32.1	$ 31.3
PBS	15.7	15.8
Total	$ 47.8	$ 47.1

The Company's cost of sales increased $0.7 million to $47.8 million in the first quarter of 2002, with the gross profit (net sales less cost of sales) percentage increasing by 2.7 percentage points to 53.5%. The higher gross profit percentage in 2002 primarily resulted from favorable product mix.

Research and Development.

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
I&L	$ 2.2	$ 2.4
PBS	2.8	2.7
Total	$ 5.0	$ 5.1

Research and development expense for the first quarter 2002 essentially remained flat compared to 2001 levels. The Company's research and development expenditures include investments for database and software development, information delivery systems and other electronic products.

Selling and Administrative.

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
I&L	$ 13.2	$ 13.2
PBS	13.2	13.0
Corporate.......................	3.1	3.3
Total	$ 29.5	$ 29.5

Selling and administrative expense of $29.5 million in the first quarter of 2002 was flat compared to the same period of last year. However, as a percent of sales, selling and

administrative expenses declined from 31% in the first quarter of 2001 to 29% in the first quarter of 2002. This improvement in current cost efficiency is the result of the company's continued focus on leveraging its current selling and marketing infrastructure.

Earnings from Continuing Operations before Interest and Taxes.

	Thirteen Weeks Ended	
	March 30, 2002	March 31, 2001
I&L	$ 12.8	$ 9.0
PBS	10.8	8.5

Corporate	(3.1)	(3.3)
Total	$ 20.5	$ 14.2

Earnings from continuing operations before interest and taxes increased $6.3 million, or 44.4%, to $20.5 million in the first quarter of 2002 resulting from the increasing electronic product sales and leveraging our current operating infrastructure.

Net Interest Expense.

Net interest expense increased $1.1 million, or 18.0%, to $7.2 million in the first quarter of 2002, primarily reflecting a higher debt level for 2002 versus the debt allocated to continuing operations in 2001.

Income Tax Expense.

Income tax expense increased in the first quarter of 2002 as a result of the higher level of pretax profit. Partially offsetting this increase is the change in the effective tax rate from 40% in 2001 to 38% in 2002.

Accounts Receivable.

	As of	
	March 30, 2002	December 29, 2001
I&L	$ 40.8	$ 47.0
PBS	27.8	28.4
Corporate	9.4	14.3
Total	$ 78.0	$ 89.7

Accounts receivable decreased by $11.7 million during the quarter ended March 30, 2002. This decrease is principally the result of a business-cycle related increase in year-end receivables due to the timing of annual subscription invoicing.

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Deferred Income.

	As of	
	March 30, 2002	December 29, 2001
I&L	$ 96.1	$ 109.4
PBS	5.4	5.3
Total	$ 101.5	$ 114.7

Deferred income decreased by $13.2 million during the quarter ended March 30, 2002. This change relates to the reduction in deferred revenue resulting from the recognition of income over the subscription term.

Liquidity and Capital Resources.

Debt (net of cash and cash equivalents) increased by $33.0 million to $283.9 million in the first quarter of 2002 primarily as a result of working capital changes associated with an increase in working capital and capital expenditures.

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

The Company's credit agreement requires a $50 million reduction in the credit facility at December 31, 2002 taking the total available from $325 million to $275 million. Accordingly, $10.6 million has been reclassified from long-term debt to current maturities of long-term debt as of March 30, 2002.

Interest Rate Risk Management.

The Company uses variable-rate long-term debt to finance its operations. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases.

Management believes it is prudent to limit the variability of most of its interest payments. To meet this objective, management enters into interest rate swaps to manage fluctuations in cash flows resulting from interest rate risk. The Company assesses interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows.

The interest rate swaps change the variable-rate cash flow exposure on the long-term debt obligations to fixed-rate cash

flows by entering into receive-variable, pay-fixed interest rate agreements, thereby creating fixed-rate long-term debt.

Recently Adopted Financial Accounting Standards.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 addresses financial accounting and reporting for business combinations, and eliminates the pooling of interest method as a valid method to account for a business combination for all business combinations initiated after June 30, 2001. SFAS No. 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment on an annual basis. The amortization of goodwill ceases upon adoption of the Statement, which for the Company was December 30, 2001, the first day of the Company's fiscal year. The net book value of the Company's goodwill and other intangible assets was $236.1 million and $240.9 million for 2002 and 2001, respectively. The adoption of the non-amortization provision of SFAS No. 142 is expected to reduce 2002 annual goodwill amortization expense by approximately $7.7 million. The Company has completed the first step of the required two-step goodwill impairment test. The first step of the impairment test requires us to compare the fair value of each reporting unit to its carrying value. If the carrying value is higher than the fair value, there is an indication that an impairment may exist; if the carrying value is less than the fair value, no indication of impairment exists and the second step does not need to be completed. If there is an indication of impairment, the second step of the impairment test requires us to allocate the fair value of the reporting unit to its assets and liabilities as if the reporting unit had been acquired in a business combination. The amount of impairment for goodwill is measured as the excess of its carrying value over its fair value. During the first step of the impairment test, no indication of impairment was evident, as determined utilizing various evaluation techniques including discounted cash flow and the Guideline Company Method. Therefore we did not need to complete the second step, and no impairment for goodwill was recorded for the initial adoption of SFAS No. 142.

As part of the implementation of SFAS No. 142 in the first quarter of 2002, we initially identified and reclassified a portion of our goodwill as identifiable intangible assets. A charge of $4.9 million (net of tax of $3.0 million) was initially recorded in the first quarter of 2002 as a cumulative effect of a change in accounting principle, for (i) the impairment of certain identifiable assets and (ii) the retroactive application of the change in the remaining useful lives of the remaining reclassified identifiable assets. We also reclassified as goodwill and other intangible assets certain intangible assets not acquired in business combinations that were initially included in other assets. No impairment charge was taken on these assets.

We subsequently learned of guidance under EITF Topic D-100, Clarification of Paragraph 61(b) of FASB Statement No. 141 and Paragraph 49(b) of FASB Statement No. 142, providing that assets that have not been historically separately stated from goodwill should not be segregated from the underlying goodwill and should be tested for impairment along with goodwill. We therefore reclassified the components of the identifiable intangible assets back to goodwill and performed the goodwill impairment test under SFAS No. 142 and determined that no goodwill impairment occurred. As a result, we revised our financial statements for the quarter ended March 30, 2002 to reflect the correction of these errors. These corrections resulted in the following changes to earnings:

	As previously reported (in thousands)	As corrected (in thousands)
Earnings from continuing operations before cumulative effect of a change in accounting principle	$ 8,278	$ 8,278
Cumulative effect of a change in accounting principle	(4,933)	0
Net earnings	3,345	8,278
Net earnings per basic common share	0.14	0.34
Net earnings per diluted common share	0.14	0.34

We have also made changes to the balance sheet to reflect the reversal of the write-off of identifiable intangible assets that reduced goodwill and intangible assets by $8.0 million, and the reversal of the tax benefit associated with the write-off of $3.0 million. In addition, we also reversed the reclassification of $5.0 million of intangible assets that were not acquired in business combinations which were originally classified as goodwill and other intangible assets in our previously issued consolidated financial statements. These intangible assets are now included in the other assets caption in our consolidated balance sheet. The balance sheet has been changed to reflect these corrections as follows:

	As previously reported	As corrected
	(in thousands)	(in thousands)
Goodwill, and other intangible assets, net of accumulated amortization	$236,056	$239,055
Other assets	89,017	93,974
Other liabilities	88,806	91,829

In October 2001, the FASB approved SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets". This Statement addresses financial accounting and reporting for the impairment of long-lived assets and for long-lived assets to be disposed of and supersedes SFAS No. 121 and APB Opinion No. 30. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early application encouraged. The adoption of SFAS No. 144 did not have a material impact on the Company's results of operations and financial position.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company, as a result of its global operating and financing activities is exposed to changes in foreign currency and interest rates which may adversely affect its results of operations and financial position. In seeking to minimize such risks, the Company uses derivative financial instruments. The Company periodically utilizes interest rate swaps, caps and collars in order to hedge its exposure to interest rate risk on debt outstanding. Specifically, the Company has entered into interest rate swaps having notional amounts totaling $200 million at March 30, 2002. The potential impact on the Company's earnings from a 50 basis point increase or decrease in quoted interest rates would be approximately $108 thousand expense or benefit for the first quarter of 2002. The interest rate swaps have expiration dates through December 2003. At March 30, 2002, the notional amounts outstanding were $200 million and the approximate weighted-average swap rate versus 3-month LIBOR was 6.16%.

Foreign Currency Risk

The Company's practice is to hedge its significant operating balance sheet exposures to foreign currency rate fluctuations via use of foreign currency forward or option contracts. The Company does not utilize financial derivatives for trading or other speculative purposes. The Company has entered into various contracts to buy or sell foreign currencies. The contracts have maturity dates extending through May 2002, and are for an aggregate amount of $63.5 million at March 30, 2002 (which approximates the fair value based on quoted market prices). The Company is exposed to market risk in the event of nonperformance by the other parties (major international banks) to these contracts; however, such nonperformance is not anticipated. The potential impact on the Company's earnings from a 10% adverse change in quoted foreign currency rates would be insignificant.

Part II. Other Information

Item 1. Legal Proceedings.

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

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

(a) Exhibits:

Index Number	Description
None	

(b) Reports on Form 8-K.

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: June 17, 2002

PROQUEST COMPANY

/s/ Alan Aldworth

Alan Aldworth
President and
Chief Operating Officer

/s/ Kevin Gregory

Kevin Gregory
Vice President,
Chief Financial Officer
and Assistant Secretary