

PROQUEST CO
Form 10-Q
November 10, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 1, 2005

OR

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

For the transition period from _____ to _____.

Commission file number 1-3246

ProQuest Company

(Exact name of registrant as specified in its charter)

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Delaware
(State or Other Jurisdiction of

36-3580106
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

777 Eisenhower Parkway, Ann Arbor, Michigan
(Address of Principal Executive Offices)

48106-1346
(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 ☒ No ☐

Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the Registrant's Common Stock, \$.001 par value, outstanding as of November 5, 2005 was 29,866,131.

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ProQuest Company and Subsidiaries

Consolidated Statements of Operations

For the Thirteen and Thirty-Nine Week Periods

Ended October 1, 2005, and October 2, 2004

(In thousands, except per share data)

(Unaudited)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net sales	\$ 159,406	\$ 113,124	\$ 420,871	\$ 336,165
Cost of sales	(77,814)	(55,664)	(205,317)	(164,797)
Gross profit	81,592	57,460	215,554	171,368
Research and development expense	(6,300)	(4,048)	(14,765)	(12,530)
Selling and administrative expense	(40,033)	(31,795)	(119,316)	(92,694)
Other operating income		900		900
Earnings from continuing operations before interest and income taxes	35,259	22,517	81,473	67,044
Net interest expense:				
Interest income	384	331	1,157	1,220
Interest expense	(9,062)	(4,656)	(24,919)	(13,554)
Net interest expense	(8,678)	(4,325)	(23,762)	(12,334)
Earnings from continuing operations before income taxes	26,581	18,192	57,711	54,710
Income tax expense	(8,409)	(6,003)	(19,454)	(18,756)
Earnings from continuing operations	18,172	12,189	38,257	35,954
Earnings from discontinued operations (less applicable income taxes of \$470)				792
Gain on sale of discontinued operations (less applicable income taxes of \$515)				15,338
Net earnings	\$ 18,172	\$ 12,189	\$ 38,257	\$ 52,084
Net earnings per common share:				
Basic:				
Earnings from continuing operations	\$ 0.61	\$ 0.43	\$ 1.29	\$ 1.26
Earnings from discontinued operations				0.03
Gain on sale of discontinued operations				0.54
Basic net earnings per common share	\$ 0.61	\$ 0.43	\$ 1.29	\$ 1.83

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Diluted:				
Earnings from continuing operations	\$ 0.60	\$ 0.42	\$ 1.27	\$ 1.25
Earnings from discontinued operations				0.03
Gain on sale of discontinued operations				0.53
Diluted net earnings per common share	\$ 0.60	\$ 0.42	\$ 1.27	\$ 1.81
Weighted average number of common shares and equivalents outstanding:				
Basic	29,752	28,588	29,602	28,494
Diluted	30,233	28,815	30,036	28,806

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

As of October 1, 2005, January 1, 2005, and October 2, 2004

(In thousands)

	October 1, 2005 (Unaudited)	January 1, 2005	October 2, 2004 (Unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 24,917	\$ 4,313	\$ 970
Accounts receivable, net	135,663	95,279	113,476
Inventory, net	15,761	5,312	4,995
Other current assets	70,031	50,133	62,576
Total current assets	246,372	155,037	182,017
Property, plant, equipment, and product masters, at cost	511,166	422,803	409,266
Accumulated depreciation and amortization	(297,866)	(222,806)	(216,605)
Net property, plant, equipment, and product masters	213,300	199,997	192,661
Long-term receivables	10,065	8,084	5,599
Goodwill	603,089	311,279	308,214
Identifiable intangibles, net	21,572	15,379	16,377
Curriculum, net	94,357		
Purchased and developed software, net	38,301	41,699	44,808
Other assets	20,278	21,454	17,267
Total assets	\$ 1,247,334	\$ 752,929	\$ 766,943
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current maturities of long-term debt	\$ 164	\$ 5,000	\$
Accounts payable	49,343	49,364	38,811
Accrued expenses	57,004	35,303	39,543
Current portion of monetized future billings	18,816	24,331	25,219
Deferred income	86,018	100,480	114,392
Total current liabilities	211,345	214,478	217,965
Long-term liabilities:			
Long-term debt, less current maturities	575,264	150,000	194,600
Monetized future billings, less current portion	22,323	36,197	42,194
Other liabilities	103,092	82,533	68,460
Total long-term liabilities	700,679	268,730	305,254
Shareholders' equity:			
Common stock (\$.001 par value, 50,000 shares authorized, 30,567 shares issued and 29,872 shares outstanding at October 1, 2005, 29,389 shares issued and 28,731 shares outstanding at January 1, 2005, and 29,174 shares issued and 28,587 shares outstanding at October 2, 2004)	30	29	29

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Capital surplus	354,820	320,033	314,835
Unearned compensation on restricted stock	(3,158)	(236)	(261)
Notes receivable arising from stock purchases		(194)	(291)
Retained earnings (accumulated deficit)	2,238	(36,019)	(50,927)
Treasury stock, at cost (695 shares at October 1, 2005, 658 shares at January 1, 2005 and 587 shares at October 2, 2004)	(17,650)	(16,276)	(14,430)
Other comprehensive income (loss):			
Accumulated foreign currency translation adjustment	1,343	4,562	(3,221)
Unrealized (loss) from derivatives, net of tax	(848)	(536)	(701)
Minimum pension liability, net of tax	(1,970)	(1,970)	(1,247)
Net unrealized gain (loss) on securities, net of tax	505	328	(62)
Accumulated other comprehensive income (loss)	(970)	2,384	(5,231)
Total shareholders' equity	335,310	269,721	243,724
Total liabilities and shareholders' equity	\$ 1,247,334	\$ 752,929	\$ 766,943

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

For the Thirty-Nine Week Periods Ended October 1, 2005, and October 2, 2004

(In thousands)

(Unaudited)

	Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004
Operating activities:		
Net earnings	\$ 38,257	\$ 52,084
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Gain on sale of discontinued operations, net		(15,338)
Gain on sale of fixed assets		(900)
Depreciation and amortization	62,719	51,833
Deferred income taxes	8,852	17,110
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(27,790)	(18,712)
Inventory, net	(2,732)	(614)
Other current assets	(17,309)	(14,886)
Long-term receivables	(1,958)	(462)
Other assets	2,286	(229)
Accounts payable	(2,347)	(10,275)
Accrued expenses	(5,026)	(9,281)
Deferred income	(17,382)	(10,737)
Other long-term liabilities	(2,810)	3,042
Other, net	(77)	562
Net cash provided by operating activities	34,683	43,197
Investing activities:		
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	(62,632)	(52,628)
Proceeds from disposal of fixed assets		900
Acquisitions, net of cash acquired	(355,835)	(23,402)
Purchases of equity investments available for sale	(3,122)	(7,677)
Proceeds from disposals of equity investments available for sale	1,801	4,171
Proceeds from (expenditures associated with) sales of discontinued operations	(87)	32,976
Net cash used in investing activities	(419,875)	(45,660)
Financing activities:		
Net increase in short-term debt	(4,958)	(305)
Proceeds from long-term debt	1,611,500	310,670
Repayment of long-term debt	(1,186,500)	(307,070)
Principal payments under capital lease obligations	(107)	
Cash paid for settlement of treasury locks	(490)	

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Debt issuance costs	(2,013)	
Monetized future billings	(19,390)	(5,005)
Repurchases of common stock		(1,720)
Proceeds from exercise of stock options	8,426	3,085
	<u> </u>	<u> </u>
Net cash provided by (used in) financing activities	406,468	(345)
Effect of exchange rate changes on cash	(672)	(245)
	<u> </u>	<u> </u>
Increase (decrease) in cash and cash equivalents	20,604	(3,053)
Cash and cash equivalents, beginning of period	4,313	4,023
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	<u>\$ 24,917</u>	<u>\$ 970</u>

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

The Consolidated Financial Statements include the accounts of ProQuest Company and its subsidiaries, including ProQuest Information & Learning (PQIL) and ProQuest Business Solutions (PQBS), 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 2004 Consolidated Financial Statements have been made to conform to the 2005 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 on Form 10-K for the fiscal year ended January 1, 2005.

In June 2004, we sold our Dealer Management System (DMS) business. For periods prior to June 2004, the operating results of this business have been segregated from our continuing operations in our Consolidated Statements of Operations.

Note 2 - Significant Accounting Policies

Accounts Receivable. Accounts receivable are stated net of the allowance for doubtful accounts which was \$ 2,443, \$1,452, and \$2,579 at October 1, 2005, January 1, 2005, and October 2, 2004, 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, net of reserves.

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

	October 1, 2005	January 1, 2005	October 2, 2004
Finished products	\$ 13,313	\$ 3,411	\$ 2,855
Products in process and materials	2,448	1,901	2,140
Total inventory, net	\$ 15,761	\$ 5,312	\$ 4,995

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 PQIL 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. The carrying value of the product masters is \$186,025 (net of \$231,296 of accumulated depreciation), \$171,368 (net of \$161,321 of accumulated depreciation), and \$173,723 (net of \$151,389 of accumulated depreciation) at October 1, 2005, January 1, 2005, and October 2, 2004, respectively.

As of October 1, 2005, fixtures and equipment held under capital leases totaled \$428 (net of \$217 accumulated depreciation). There were no capital leases as of January 1, 2005 or October 2, 2004.

Curriculum. Curriculum includes the acquired curriculum in the amount of \$97,000 resulting from the acquisition of Voyager in the first quarter of 2005, as well as additional ongoing curriculum development costs. The curriculum that was acquired with Voyager is being amortized over 10 years on a straight-line basis. New curriculum development costs for programs that have an estimated life of more than one year are capitalized and amortized over the expected lives of the programs, typically 3 years. Curriculum development costs on programs with a one-year shelf life are expensed as incurred. The carrying value of curriculum is \$94,357 (net of \$6,687 of accumulated amortization) at October 1, 2005.

Stock Option Plan. As permitted by Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock Based Compensation* , we account for our stock option plan using the intrinsic method prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. Accordingly, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price of the stock option. Pro forma net earnings and earnings per share disclosures for employee stock option grants based on the fair value-based method (defined in SFAS No. 123),

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whereby the fair value of stock-based awards at the date of grant would be subsequently expensed over the related vesting periods, are indicated below:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net earnings, as reported	\$ 18,172	\$ 12,189	\$ 38,257	\$ 52,084
Add: Stock-based compensation, as reported	267	18	591	26
Deduct: Total stock-based employee compensation expense determined under fair-value based method for all awards, net of related tax effects	(1,253)	(1,449)	(3,910)	(4,567)
Pro forma net earnings	\$ 17,186	\$ 10,758	\$ 34,938	\$ 47,543
Earnings per share:				
Basic - as reported	\$ 0.61	\$ 0.43	\$ 1.29	\$ 1.83
Basic - pro forma	\$ 0.58	\$ 0.38	\$ 1.18	\$ 1.67
Diluted - as reported	\$ 0.60	\$ 0.42	\$ 1.27	\$ 1.81
Diluted - pro forma	\$ 0.57	\$ 0.37	\$ 1.16	\$ 1.65

The fair value of restricted stock is based on the market value of those shares at the grant date. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model or a binomial model. The assumptions for the Black-Scholes option-pricing model are as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Expected stock volatility	35.72%	37.60%	36.71%	38.53%
Risk-free interest rate	3.77%	3.12%	3.82%	3.04%
Expected years until exercise	4	4	4	4
Dividend yield	0.00%	0.00%	0.00%	0.00%

On February 4, 2004, the Compensation Committee of our Board of Directors granted 1,961.5 nonqualified stock options with an exercise price of \$30.97 to six members of our senior executive team. These stock options are intended to serve as a long-term incentive consistent with the Board's desire that management deliver long-term sustainable stockholder value.

Based on the complexity of this plan, we have utilized a binomial model to estimate the fair value of the options, utilizing the following assumptions:

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Expected stock volatility	31.50%
Risk-free interest rate	3.07%
Expected years until exercise	5
Dividend yield	0.00%

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We also issue shares of restricted stock to certain employees and non-employees. For the thirteen and thirty-nine weeks ended October 1, 2005 we issued 4 and 113 shares respectively, compared to 6 and 11, respectively, for the thirteen and thirty-nine weeks ended October 2, 2004. These shares are valued at the market price at their respective award dates, recorded as Unearned compensation on restricted stock on our Consolidated Balance Sheets, and recognized as expense over the vesting period, typically 3 years.

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

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 reflects the potential dilution that could occur if all of our outstanding stock options that are in-the-money were exercised and the restricted stock was fully vested, using the treasury stock method. Under the treasury stock method, the proceeds that would be received from the exercise of all in-the-money options are assumed to be used to repurchase shares. A reconciliation of the weighted-average number of common shares and equivalents outstanding in the calculation of basic and diluted net earnings per common share is shown in the table below for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Basic	29,752	28,588	29,602	28,494
Dilutive effect of stock options and non-vested restricted stock	481	227	434	312
Diluted	30,233	28,815	30,036	28,806

In accordance with SFAS No. 128, *Earnings per Share*, 233 and 3,097 common stock equivalent shares for the thirteen weeks ended October 1, 2005 and October 2, 2004, respectively, and 315 and 2,959 common stock equivalent shares for the thirty-nine weeks ended October 1, 2005 and October 2, 2004, respectively, issuable upon the exercise of stock options were excluded from the above computations because the exercise price of such options were greater than the average market prices of the common stock and therefore the impact of these shares was antidilutive.

Note 3 Discontinued Operations

In June 2004, we sold our DMS business, which was a component of PQBS. The DMS business was a software business, which did not fit with our core electronic publishing strategy. The net gain resulting from the sale was derived as follows:

Purchase price	\$ 35,900
Net assets, reserves, and expenses	(20,562)
Gain on sale, net	\$ 15,338

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

	Thirty-Nine Weeks Ended October 2, 2004
Net sales	\$ 8,567
Earnings before interest and income taxes	1,499
Interest expense, net	(237)
Income tax expense	(470)
Earnings from discontinued operations	\$ 792

We will continue to provide parts and service products for powersports, recreational vehicles, and marine dealers. In addition, we entered into an exclusive distributor agreement with the DMS buyer. Approximately \$5,100 was recorded as deferred revenue related to this agreement, and will be recognized as revenue over the sixty-month contract. For the thirteen and thirty-nine weeks ended October 1, 2005, \$255 and \$765 respectively, were recognized as revenue related to this contract.

Note 4 Comprehensive Income

Comprehensive income or loss includes net earnings, net unrealized gain(loss) on derivative instruments related to interest rate hedging, foreign currency translation adjustments, minimum pension liability, and net unrealized gain on available-for-sale securities.

Comprehensive income is shown in the table below for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net earnings	\$ 18,172	\$ 12,189	\$ 38,257	\$ 52,084
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative instruments, net of tax	46	35	(312)	105
Foreign currency translation adjustments	(340)	(9)	(3,219)	10
Unrealized gain (loss) on securities, net of tax	74	(62)	177	(62)
Comprehensive income	\$ 17,952	\$ 12,153	\$ 34,903	\$ 52,137

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The net unrealized gain(loss) on derivative instruments, foreign currency translation adjustments, minimum pension liability, and net unrealized gain on securities 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:

	As of and for the Thirteen Weeks Ended October 1, 2005			
	PQIL	PQBS	Corporate	Total
Net sales	\$ 113,409	\$ 45,997	\$	\$ 159,406
Earnings (loss) from continuing operations before interest and income taxes	\$ 27,321	\$ 10,702	\$ (2,764)	\$ 35,259
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	\$ 14,554	\$ 319	\$ 25	\$ 14,898
Depreciation and amortization	\$ 23,657	\$ 1,371	\$ 67	\$ 25,095
Total assets	\$ 1,088,225	\$ 120,941	\$ 38,168	\$ 1,247,334

	As of and for the Thirteen Weeks Ended October 2, 2004			
	PQIL	PQBS	Corporate	Total
Net sales	\$ 71,263	\$ 41,861	\$	\$ 113,124
Earnings (loss) from continuing operations before interest and income taxes	\$ 12,075	\$ 13,454	\$ (3,012)	\$ 22,517
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	\$ 12,879	\$ 692	\$	\$ 13,571
Depreciation and amortization	\$ 17,868	\$ 1,272	\$ 76	\$ 19,216
Total assets	\$ 641,575	\$ 98,430	\$ 26,938	\$ 766,943

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As of and for the Thirty-Nine Weeks Ended October 1, 2005

	PQIL	PQBS	Corporate	Total
Net sales	\$ 285,293	\$ 135,578	\$	\$ 420,871
Earnings (loss) from continuing operations before interest and income taxes	\$ 57,925	\$ 34,116	\$ (10,568)	\$ 81,473
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	\$ 60,763	\$ 1,312	\$ 557	\$ 62,632
Depreciation and amortization	\$ 58,503	\$ 3,993	\$ 223	\$ 62,719

As of and for the Thirty-Nine Weeks Ended October 2, 2004

	PQIL	PQBS	Corporate	Total
Net sales	\$ 209,885	\$ 126,280	\$	\$ 336,165
Earnings (loss) from continuing operations before interest and income taxes	\$ 39,770	\$ 37,494	\$ (10,220)	\$ 67,044
Expenditures for property, plant, equipment, product masters, curriculum development costs, and software	\$ 46,939	\$ 5,679	\$ 10	\$ 52,628
Depreciation and amortization	\$ 46,282	\$ 5,324	\$ 227	\$ 51,833

Note 6 Investments in Affiliates

On December 4, 2000, we entered into a Limited Liability Company Agreement with DaimlerChrysler Corporation, Ford Motor Company, and General Motors Corporation to form OEConnection (OEC).

For reporting purposes, OEC's balance sheet and statement of operations are not consolidated with our results. Beginning January 1, 2003 until December 31, 2007, we earn a royalty on OEC's net revenues, which is recorded in Net sales in our Consolidated Statement of Operations. The royalty recognized was \$373 and \$1,066 for the thirteen and thirty-nine weeks ended October 1, 2005, respectively, compared to \$330 and \$942 for the thirteen and thirty-nine weeks ended October 2, 2004, respectively.

Note 7 Goodwill, Software, Curriculum, and Other Intangible Assets

We follow 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. We perform this annual analysis during the second fiscal quarter based on the goodwill balance as of the end of the first fiscal quarter.

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The following table summarizes the changes in the carrying amount of goodwill by segment for the periods indicated:

	PQIL	PQBS	Total
Balance as of January 3, 2004	\$ 255,332	\$ 48,361	\$ 303,693
Goodwill acquired (1)	15,557		15,557
Goodwill disposed		(11,036)	(11,036)
Balance as of October 2, 2004	\$ 270,889	\$ 37,325	\$ 308,214
Goodwill acquired (1)	2,032	1,991	4,023
Reclassification of goodwill to other assets	(958)		(958)
Balance as of January 1, 2005	\$ 271,963	\$ 39,316	\$ 311,279
Goodwill acquired (1)	282,123	9,687	291,810
Balance as of October 1, 2005	\$ 554,086	\$ 49,003	\$ 603,089

- (1) Changes in goodwill consist primarily of current acquisitions and disposals as well as the finalization of our preliminary purchase price allocations for prior acquisitions.

We follow the guidance in Statement of Position (SOP) 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* for capitalizing software projects. We follow SFAS No. 86 *Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed* for software projects related to external use. Included in depreciation and amortization expense was \$4,200 and \$11,331 of software amortization expense for the thirteen and thirty-nine weeks ended October 1, 2005, respectively and \$4,931 and \$12,871 for the thirteen and thirty-nine weeks ended October 2, 2004, respectively.

Curriculum includes the acquired curriculum in the amount of \$97,000 resulting from the acquisition of Voyager in the first quarter of 2005, as well as additional ongoing curriculum development costs. Included in depreciation and amortization expense was \$2,634 and \$6,687 of curriculum amortization expense for the thirteen and thirty-nine weeks ended October 1, 2005.

The following table summarizes our Identifiable intangibles and related accumulated amortization at the dates indicated:

	Balance as of October 1, 2005		
	Gross	Accumulated Amortization	Net
Customer lists	\$ 21,567	\$ (7,596)	\$ 13,971
Trademark	6,540	(1,287)	5,253
Acquired software	1,795	(513)	1,282
Non-compete agreement	1,456	(390)	1,066

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Total intangibles	\$ 31,358	\$ (9,786)	\$ 21,572
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Balance as of January 1, 2005			
	Gross	Accumulated Amortization	Net
Customer lists	\$ 17,250	\$ (4,860)	\$ 12,390
Trademark	2,641	(576)	2,065
Acquired software	211	(98)	113
Non-compete agreement	960	(149)	811
Total intangibles	\$ 21,062	\$ (5,683)	\$ 15,379

Balance as of October 2, 2004			
	Gross	Accumulated Amortization	Net
Customer lists	\$ 17,031	\$ (3,798)	\$ 13,233
Trademark	2,600	(441)	2,159
Acquired software	211	(77)	134
Non-compete agreement	950	(99)	851
Total intangibles	\$ 20,792	\$ (4,415)	\$ 16,377

We recorded \$1,585 and \$4,341 of intangible amortization expense for the thirteen and thirty-nine weeks ended October 1, 2005, respectively compared to \$1,152 and \$2,371 during the thirteen and thirty-nine weeks ended October 2, 2004, respectively. Based on the current amount of intangible assets subject to amortization, the estimated amortization expense for each of the succeeding five years is as follows:

Remainder of 2005	\$ 4,104
2006	5,647
2007	5,352
2008	3,292
2009	1,542
2010 and thereafter	1,635
	\$ 21,572

These amounts may vary as acquisitions and dispositions occur in the future, and as purchase price allocations are finalized.

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During the thirty-nine weeks ended October 1, 2005, we acquired the following intangible assets:

		Weighted-Average Amortization Period
Customer lists	\$ 4,800	10 years
Trademark	3,600	10 years
Acquired software	1,583	3 years
Non-compete agreements	497	3 years
Total intangibles	\$ 10,480	

Note 8 Other Current Assets

Other current assets at October 1, 2005, January 1, 2005, and October 2, 2004 consisted of the following:

	As of		
	October 1, 2005	January 1, 2005	October 2, 2004
Short-term deferred tax asset	\$ 8,771	\$ 7,705	\$ 9,549
Prepaid taxes		602	5,643
Prepaid royalties	26,459	17,793	19,168
Commissions	9,041	7,472	6,870
Available-for-sale securities	8,721	7,172	6,733
Maintenance agreements	2,608	3,063	2,269
Other prepaids	14,431	6,326	12,344
Total	\$ 70,031	\$ 50,133	\$ 62,576

Note 9 Other Assets

Other assets at October 1, 2005, January 1, 2005, and October 2, 2004 consisted of the following:

	As of		
	October 1, 2005	January 1, 2005	October 2, 2004

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Long-term deferred tax asset	\$ 3,218	\$ 3,218	\$
Licenses, net	6,290	7,728	8,167
Long-term commissions	5,235	4,893	4,949
Deferred financing costs	2,776	1,173	876
Other	2,759	4,442	3,275
Total	\$ 20,278	\$ 21,454	\$ 17,267

Table of Contents**Note 10 Accrued Expenses**

Accrued expenses at October 1, 2005, January 1, 2005, and October 2, 2004 consisted of the following:

	As of		
	October 1, 2005	January 1, 2005	October 2, 2004
Salaries, wages and bonuses	\$ 19,668	\$ 21,861	\$ 14,395
Profit sharing	2,686	2,002	1,909
Discontinued operations reserve	323	409	1,501
Accrued income taxes	21,253	3,577	14,977
Accrued interest	6,420	2,171	56
Other	6,654	5,283	6,705
Total	\$ 57,004	\$ 35,303	\$ 39,543

Note 11 Other Liabilities

Other liabilities at October 1, 2005, January 1, 2005, and October 2, 2004 consisted of the following:

	As of		
	October 1, 2005	January 1, 2005	October 2, 2004
Deferred compensation and pension benefits	\$ 44,561	\$ 46,503	\$ 44,319
Deferred income taxes	35,462	6,846	(130)
Other	23,069	29,184	24,271
Total	\$ 103,092	\$ 82,533	\$ 68,460

Note 12 Pension and Other Postretirement Benefit Plans

Components of net periodic benefit costs are:

	Thirteen Weeks Ended					
	U.S. Plans		Non-U.S. Plans		Other Postretirement Benefits	
	Pension Benefits		Pension Benefits		Benefits	
	October 1,	October 2,	October 1,	October 2,	October 1,	October 2,
	2005	2004	2005	2004	2005	2004
Service cost	\$	\$ 66	\$ 51	\$ 58	\$ 2	\$ 21
Interest cost	323	320	852	842	8	29
Expected return on plan assets			(758)	(692)		
Amortization of prior service cost				59		
Amortization of plan amendment					(476)	
Recognized net actuarial gain (loss)	32		155	109	(20)	
Net pension and other postretirement benefit cost	\$ 355	\$ 386	\$ 300	\$ 376	\$ (486)	\$ 50

	Thirty-Nine Weeks Ended					
	U.S. Plans		Non-U.S. Plans		Other Postretirement Benefits	
	Pension Benefits		Pension Benefits		Benefits	
	October 1,	October 2,	October 1,	October 2,	October 1,	October 2,
	2005	2004	2005	2004	2005	2004
Service cost	\$	\$ 202	\$ 132	\$ 170	\$ 7	\$ 63
Interest cost	948	968	2,585	2,518	23	87
Expected return on plan assets			(2,266)	(2,076)		
Amortization of prior service cost			4	177		
Amortization of plan amendment					(1,024)	
Recognized net actuarial gain (loss)	52		468	327	(40)	
Net pension and other postretirement benefit cost	\$ 1,000	\$ 1,170	\$ 923	\$ 1,116	\$ (1,034)	\$ 150

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As previously disclosed in our annual report on Form 10-K for the year ended January 1, 2005, in November 2004 we announced that effective January 1, 2006 we will no longer offer a retiree medical program. This resulted in a negative plan amendment in the amount of \$937 which is being recognized ratably over the remaining service period through December 31, 2005. Upon the expiration of the participant option period in June 2005, an additional \$563 negative plan amendment resulted which will be recognized ratably through the remainder of the 2005 fiscal year.

Note 13 Acquisitions

On January 31, 2005, we completed our acquisition of all the outstanding ownership interest in Voyager Expanded Learning Inc. (Voyager). Voyager is part of our ProQuest Information & Learning segment. The results of Voyager's operations subsequent to the acquisition on January 31, 2005 are included in our Consolidated Financial Statements. Had Voyager been acquired effective on the first day of our 2004 fiscal year, pro forma unaudited consolidated net sales, net earnings, and net earnings per common share would have been as follows:

	Pro Forma for the		Pro Forma for the	
	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	October 1, 2005	October 2, 2004	October 1, 2005	October 2, 2004
Net sales	\$ 159,406	\$ 152,971	\$ 428,556	\$ 402,086
Net earnings	18,172	21,321	38,605	55,219
Net earnings per common share:				
Basic	\$ 0.61	\$ 0.73	\$ 1.30	\$ 1.89
Diluted	\$ 0.60	\$ 0.72	\$ 1.28	\$ 1.87

Voyager provides research-based curriculum and professional development programs for school districts throughout the United States. Voyager's research-based reading intervention programs integrate all of the vital components necessary for teaching every child to read and meet the requirements of the Federal No Child Left Behind Act. Voyager also provides math intervention programs, reading intervention programs for middle school and professional development for teachers.

Growing our kindergarten through twelfth grade educational business (K-12) is an important part of our long-term strategy. The acquisition of Voyager is a major step in advancing that strategy. Combining the ProQuest name with the strengths of the Voyager products as well as their market position and strong sales force will allow us to reach more customers in the K-12 market. The acquisition creates opportunities for synergies that will come from offering more products and services across more customer segments.

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The following table summarizes the estimated fair values of assets acquired and liabilities assumed at the date of the acquisition:

At January 31, 2005

Cash	\$ 7,064
Current assets	25,428
Property, plant, and equipment	1,722
Curriculum	97,000
Other assets	688
Intangibles	8,400
Goodwill	279,588
Total assets acquired	419,890
Current liabilities	\$ 8,683
Capital lease obligations	543
Deferred income	3,236
Long-term deferred taxes	37,195
Total liabilities assumed	49,657
Net assets acquired	\$ 370,233

The total consideration paid for all the issued and outstanding common stock of Voyager was approximately \$370 million which included \$21 million in our restricted common stock which was approximately 683 thousand shares as well as a \$10 million working capital adjustment which was paid in the second quarter of 2005. The number of restricted common stock shares was determined based on the closing price of our common stock on January 31, 2005. We also agreed to pay up to an additional \$20 million in the aggregate to the shareholders of Voyager based upon Voyager's revenue performance during the period from April 1, 2005 through March 31, 2006.

We financed our acquisition of Voyager through a new issuance of private-placement notes and a new revolving line of credit (see Note 14). The 5.38% fixed notes mature in January 2015. Our previous revolving credit agreement was replaced with a new agreement with capacity of \$275 million in total borrowings and an expiration of January 2010.

Table of Contents**Note 14 Debt and Lines of Credit**

The following table summarizes our debt as of the dates indicated:

	As of		
	October 1, 2005	January 1, 2005	October 2, 2004
Long-term debt:			
5.45% senior notes due 10/01/12	\$ 150,000	\$ 150,000	\$ 150,000
5.38% senior notes due 01/31/15	175,000		
Revolving credit agreement	250,000	5,000	44,600
Capital lease obligations	428		
Long-term debt	575,428	155,000	194,600
Less: current maturities	(164)	(5,000)	
Long-term debt, less current maturities	\$ 575,264	\$ 150,000	\$ 194,600

5.45% Senior Notes

On January 31, 2005, we entered into a first amendment to the 2002 Note Purchase Agreement dated as of October 1, 2002, under and pursuant to which we originally issued and sold our 5.45% senior notes (the "2002 Notes") due October 1, 2012, in an aggregate principal amount of \$150 million. The first amendment, among other things, amended the financial covenants under the 2002 Note Purchase Agreement to give effect to the acquisition of Voyager. Specifically, the consolidated adjusted net worth covenant and the consolidated debt covenants were adjusted to be consistent with the terms of the 2005 Note Purchase Agreement.

5.38% Senior Notes

On January 31, 2005, we entered into the 2005 Note Purchase Agreement providing for, among other things, the issue and sale by us to the 2005 Note Purchasers of the Company's 5.38% Senior Notes due January 31, 2015, in the aggregate principal amount of \$175 million (the "2005 Notes"). We are required to make six equal annual principal payments on the 2005 Notes commencing on January 31, 2010. The applicable annual interest on the 2005 Notes will be payable semi-annually in arrears calculated on the basis of a 360-day year of twelve 30-day months.

Revolving Credit Agreement

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On January 31, 2005, we replaced our previous revolving credit agreement with a new variable interest rate facility. The new Credit Agreement is a five-year, unsecured revolving credit facility in an amount up to \$275 million, with a subfacility for letters of credit (in an amount not to exceed \$20 million) and a subfacility for swingline loans (in an amount not to exceed \$15 million). The aggregate maximum principal amount of the revolver may be increased by an amount up to \$75 million during the term of the Credit Agreement, provided that the lenders are willing to grant such increase, no default exists, and certain other conditions are satisfied. Borrowings and letters of credit under the Credit Agreement bear

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interest, at our option, at either the London Interbank Offered Rate plus a spread ranging from 0.75% to 1.75% or 0% to 0.25% over an alternative base rate. The alternative base rate is the greater of the Standard Federal Bank, N.A. prime rate or the Federal Funds rate plus 0.50%.

Capital Lease Obligations

With the acquisition of Voyager, we acquired property under capital leases. These capital leases expire in 2008.

Note 15 Capital Leases

We lease certain fixtures and equipment under capital leases. The aggregate future minimum lease payments related to these capital leases at October 1, 2005 are as follows:

Remainder of 2005	\$ 43
2006	201
2007	178
2008	56
	—
Total minimum lease payments	478
Less amounts representing interest	(50)
	—
Present value of minimum lease payments	\$ 428
	—

Note 16 Subsequent Event

On October 28, 2005, we completed the sale of PQIL's periodical microfilm business, related manufacturing assets including the manufacturing facility and the coursepack business to National Archive Publishing Company (NAPC). NAPC will provide microfilming and scanning services for our electronic products. This sale is aligned with PQIL's strategy to focus on growth platforms in K-12 curriculum products and unique published products for higher education. Archival content has been and remains an important part of the business mission of ProQuest Company. We believe that redirecting our higher education resources to our digital published products will result in more sustainable revenue growth.

Under the terms of the agreement, this transaction bears a purchase price of \$30 million, consisting of \$28 million in cash less any working capital adjustments and a note in the amount of \$2 million which will bear an annual interest rate of 9% and be paid in 4 annual installments of principal plus interest, with the final payment due on December 31, 2009.

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Listed below are the major classes of assets and liabilities being sold and/or assumed as of October 1, 2005:

Accounts receivable	\$ 7,019
Other current assets	1,158
Property, plant, equipment, and product masters	30,918
Other assets	1,786
Intangibles	646
Goodwill	5,787
Total assets to be sold	47,314
Current liabilities	\$ 4,041
Deferred income	13,760
Total liabilities to be assumed by buyer	17,801
Net assets to be sold	\$ 29,513

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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 on Form 10-K for the year ended January 1, 2005, as well as the accompanying interim financial statements for the periods ending October 1, 2005.

Safe Harbor for Forward-looking Statements

Some of the statements contained herein constitute forward-looking statements. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our markets' actual results, levels of activity, performance, or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. These risks and other factors you should specifically consider include, among other things, the company's ability to successfully integrate acquisitions and reduce costs, global economic conditions, product demand, financial market performance, and other risks listed under "Risk Factors" in our regular filings with the Securities and Exchange Commission. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "potential", "continue", "projects", "intends", "prospects", "priorities", or the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. We undertake no obligation to update any of these forward-looking statements.

Table of Contents**Results of Operations****Third Quarter of Fiscal 2005 Compared to the Third Quarter of Fiscal 2004**

(Dollars in millions)	Thirteen Weeks Ended					
	October 1, 2005		October 2, 2004		Inc/(Dec)	
	% of		% of			
	Amount	sales	Amount	sales	\$	%
Net sales	\$ 159.4	100.0	\$ 113.1	100.0	\$ 46.3	40.9
Cost of sales	(77.8)	(48.8)	(55.7)	(49.2)	(22.1)	(39.7)
Gross profit	81.6	51.2	57.4	50.8	24.2	42.2
Research and development expense	(6.3)	(4.0)	(4.0)	(3.5)	(2.3)	(57.5)
Selling and administrative expense	(40.0)	(25.1)	(31.8)	(28.2)	(8.2)	(25.8)
Other operating income			0.9	0.8	(0.9)	(100.0)
Earnings from continuing operations before interest and income taxes	35.3	22.1	22.5	19.9	12.8	56.9
Net interest expense	(8.7)	(5.4)	(4.3)	(3.8)	(4.4)	(102.3)
Income tax expense	(8.4)	(5.3)	(6.0)	(5.3)	(2.4)	(40.0)
Net earnings from continuing operations	\$ 18.2	11.4	\$ 12.2	10.8	\$ 6.0	49.2

Net Sales.

(Dollars in millions)	Thirteen Weeks Ended		Inc/(Dec)	
	October 1, 2005	October 2, 2004	\$	%
POIL				
Published Products	\$ 31.9	\$ 27.8	\$ 4.1	14.7
General Reference Products	16.3	16.0	0.3	1.9
Traditional Products	20.1	21.7	(1.6)	(7.4)
Classroom Products	5.0	5.8	(0.8)	(13.8)
Voyager	40.1		40.1	NM
TOTAL PQIL	\$ 113.4	\$ 71.3	\$ 42.1	59.0

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POBS				
Automotive Group	\$ 43.3	\$ 39.4	\$ 3.9	9.9
Power Equipment-Electronic	2.3	2.1	0.2	9.5
Other	0.4	0.3	0.1	33.3
TOTAL PQBS	\$ 46.0	\$ 41.8	\$ 4.2	10.0
TOTAL PROQUEST	\$ 159.4	\$ 113.1	\$ 46.3	40.9

Our net sales from continuing operations increased \$46.3 million, or 40.9%, to \$159.4 million in the third quarter of 2005.

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ProQuest Information & Learning

Net sales at PQIL increased \$42.1 million, or 59.0%, to \$113.4 million.

Published Products.

Our published products continued to show strong demand and revenue increased \$4.1 million, or 14.7%, to \$31.9 million compared to the third quarter of 2004. The increase was driven by market demand for these products and continued improvement in library funding.

General Reference Products.

Revenue from our general reference products increased 1.9% in the quarter. Four percent revenue growth in our K-12 and higher education products was offset by continued declines in our reseller products.

Traditional Products.

Revenue from our traditional products decreased \$1.6 million, or 7.4%, to \$20.1 million. This was the result of a decline in revenue of \$2.4 million from serials and collections microfilm, backfile and miscellaneous film which was partially offset by an \$0.8 million increase in revenue from newspaper.

Voyager.

Revenue from Voyager products was \$40.1 million for the third quarter of fiscal 2005. Revenue was driven by continued strong renewal rates and expansion into new districts. Revenue at Voyager is seasonal. The first quarter is generally the lowest, with increased revenue shown as the year progresses. Revenue increases in the second quarter from summer school enrollment. The third and fourth quarters have the strongest revenue as a result of the start of the school year.

For the third quarter of 2005, approximately \$4.0 million of revenue was lost because of damage to Voyager customer schools in Louisiana, Mississippi and Texas, some of which are closed indefinitely. In addition, reading and math intervention funding of more than \$100 million was approved by the Texas state government, but disbursement of these approved funds has been delayed. The impact of the Texas funding delay on Voyager's revenue is approximately \$10 million for the combined third and fourth quarters of 2005. The third and fourth quarters of 2005 will also be impacted by a change from centralized purchasing to decentralized purchasing in the New York City school district.

ProQuest Business Solutions

Net sales at PQBS increased \$4.2 million, or 10.0%, to \$46.0 million.

Automotive Group.

Revenue from our automotive products increased \$3.9 million, or 9.9%, to \$43.3 million. This was the result of increased revenue from acquired new products that help automotive dealers solve specific business problems within sales, service, warranty, and dealer management.

Table of Contents*Gross Profit.*

(Dollars in millions)	Thirteen Weeks Ended		% of Sales (1)	
	October 1,	October 2,	October 1,	October 2,
	2005	2004	2005	2004
PQIL	\$ 54.3	\$ 31.0	47.9	43.5
PQBS	27.3	26.4	59.3	63.2
Total	\$ 81.6	\$ 57.4	51.2	50.8

(1) Percentages calculated based on each division's sales.

Our gross profit percentage increased 40 basis points to 51.2% compared to the third quarter of 2004.

At PQIL, the gross profit margin increased from 43.5% to 47.9%, an increase of 440 basis points compared to the third quarter of 2004. This increase is primarily due to the acquisition of Voyager, which has higher gross profit margins, partially offset by the amortization of acquired curriculum costs.

At PQBS, the gross profit margin decreased from 63.2% to 59.3%, a decrease of 390 basis points compared to the third quarter of 2004. This decrease resulted primarily from development costs incurred which includes updating an electronic parts catalog for a major OEM and lower margins on new products we obtained as part of acquisitions completed earlier this year.

Research and Development.

(Dollars in millions)	Thirteen Weeks Ended		Inc/(Dec)	
	October 1,	October 2,		
	2005	2004	\$	%
PQIL	\$ 4.1	\$ 2.0	\$ 2.1	105.0
PQBS	2.2	2.0	0.2	10.0
Total	\$ 6.3	\$ 4.0	\$ 2.3	57.5

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Our research and development expenditures include costs for database and software development, information delivery systems, and other electronic products. Increases at PQIL are a result of costs related to Voyager research and development activities, as well as new programs at Learning.

Table of Contents*Selling and Administrative.*

(Dollars in millions)	Thirteen Weeks Ended		Inc/(Dec)	
	October 1, 2005	October 2, 2004	\$	%
PQIL	\$ 22.8	\$ 17.9	\$ 4.9	27.4
PQBS	14.4	10.9	3.5	32.1
Corporate	2.8	3.0	(0.2)	(6.7)
Total	\$ 40.0	\$ 31.8	\$ 8.2	25.8

The increase at PQIL is primarily due to the acquisition of Voyager. The increase at PQBS is primarily the result of higher sales volume and additional costs associated with recent acquisitions.

Net Interest Expense.

(Dollars in millions)	Thirteen Weeks Ended		Inc/(Dec)	
	October 1, 2005	October 2, 2004	\$	%
Interest income	\$ (0.4)	\$ (0.3)	\$ (0.1)	(33.3)
Debt	7.3	2.8	4.5	160.7
Monetized contracts	1.6	1.7	(0.1)	(5.9)
Other	0.2	0.1	0.1	100.0
Total	\$ 8.7	\$ 4.3	\$ 4.4	102.3

As a result of the Voyager acquisition, net interest expense increased approximately \$4.5 million.

Income Tax Expense.

For the thirteen weeks ended October 1, 2005, income taxes were recorded at an effective rate of 31.6%, compared to an effective rate of 33.0% for the thirteen weeks ended October 2, 2004. Income tax expense increased for the thirteen weeks ended October 1, 2005 due to higher operating earnings partially offset by a decrease to the effective tax rate. We expect our full year 2005 tax rate to be approximately 34%.

Table of Contents**Results of Operations****Nine Months Year-to-Date 2005 Compared to Nine Months Year-to-Date 2004**

(Dollars in millions)	Thirty-Nine Weeks Ended					
	October 1, 2005		October 2, 2004		Inc/(Dec)	
	% of		% of			
	Amount	sales	Amount	sales	\$	%
Net sales	\$ 420.9	100.0	\$ 336.1	100.0	\$ 84.8	25.2
Cost of sales	(205.3)	(48.8)	(164.8)	(49.0)	(40.5)	(24.6)
Gross profit	215.6	51.2	171.3	51.0	44.3	25.9
Research and development expense	(14.8)	(3.5)	(12.5)	(3.7)	(2.3)	(18.4)
Selling and administrative expense	(119.3)	(28.3)	(92.7)	(27.7)	(26.6)	(28.7)
Other operating income			0.9	0.3	(0.9)	(100.0)
Earnings from continuing operations before interest and income taxes	81.5	19.4	67.0	19.9	14.5	21.6
Net interest expense	(23.8)	(5.7)	(12.3)	(3.7)	(11.5)	(93.5)
Income tax expense	(19.4)	(4.6)	(18.7)	(5.5)	(0.7)	(3.7)
Net earnings from continuing operations	\$ 38.3	9.1	\$ 36.0	10.7	\$ 2.3	6.4

Net Sales.

(Dollars in millions)	Thirty-Nine Weeks Ended		Inc/(Dec)	
	October 1, 2005	October 2, 2004	\$	%
POIL				
Published Products	\$ 97.5	\$ 83.5	\$ 14.0	16.8
General Reference Products	47.8	48.6	(0.8)	(1.6)
Traditional Products	61.6	67.4	(5.8)	(8.6)
Classroom Products	9.3	10.4	(1.1)	(10.6)
Voyager	69.1		69.1	NM
TOTAL PQIL	\$ 285.3	\$ 209.9	\$ 75.4	35.9

PQBS				
Automotive Group	\$ 128.3	\$ 119.2	\$ 9.1	7.6
Power Equipment-Electronic	6.2	6.1	0.1	1.6
Other	1.1	0.9	0.2	22.2
	<u> </u>	<u> </u>	<u> </u>	
TOTAL PQBS	\$ 135.6	\$ 126.2	\$ 9.4	7.4
	<u> </u>	<u> </u>	<u> </u>	
TOTAL PROQUEST	\$ 420.9	\$ 336.1	\$ 84.8	25.2
	<u> </u>	<u> </u>	<u> </u>	

Our net sales from continuing operations increased \$84.8 million, or 25.2%, to \$420.9 million in the first nine months of fiscal 2005.

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ProQuest Information & Learning

Net sales at PQIL increased \$75.4 million, or 35.9%, to \$285.3 million.

Published Products.

Our published products continued to show strong demand and revenue increased \$14.0 million, or 16.8%, to \$97.5 million compared to the first nine months of fiscal 2004. The increase was driven by strong revenue from humanities products, Serials Solutions products and Historical Newspapers products.

General Reference Products.

Revenue from our general reference products decreased \$0.8 million, or 1.6%, to \$47.8 million primarily due to a decline in our reseller business, partially offset by increases in our K-12 products.

Traditional Products.

Revenue from our traditional products decreased \$5.8 million, or 8.6%, to \$61.6 million primarily as a result of a decline in revenue of \$5.1 million from microfilm backfile, serials and miscellaneous film.

Voyager.

Revenue from Voyager products was \$69.1 million for the eight months since the Voyager acquisition was consummated in 2005. Revenue was driven by sales of our Voyager Passport, Summer School, and Universal Literacy System programs. Revenue at Voyager is seasonal. The first quarter is generally the lowest, with increased revenue generated as the year progresses. Revenue increases in the second quarter from summer school enrollment. The third and fourth quarters have the strongest revenue as a result of the start of the school year.

For the third quarter of 2005, approximately \$4.0 million of revenue was lost because of damage to Voyager customer schools in Louisiana, Mississippi and Texas, some of which are closed indefinitely. In addition, reading and math intervention funding of more than \$100 million was approved by the Texas state government, but disbursement of these approved funds has been delayed. The impact of the Texas funding delay on Voyager's revenue is approximately \$10 million for the combined third and fourth quarters of 2005. The third and fourth quarters of 2005 will also be impacted by a change from centralized purchasing to decentralized purchasing in the New York City school district.

Table of Contents**ProQuest Business Solutions**

Net sales at PQBS increased \$9.4 million, or 7.4%, to \$135.6 million.

Automotive Group.

Revenue from our automotive products increased \$9.1 million, or 7.6%, to \$128.3 million. This was the result of increased revenue from acquired new products that help automotive dealers solve specific business problems within sales, service, warranty, and dealer management.

Gross Profit.

	Thirty-Nine Weeks Ended		% of Sales (1)	
	October 1,	October 2,	October 1,	October 2,
	2005	2004	2005	2004
(Dollars in millions)				
PQIL	\$ 132.9	\$ 92.1	46.6	43.9
PQBS	82.7	79.2	61.0	62.8
Total	\$ 215.6	\$ 171.3	51.2	51.0

(1) These are calculated based on each division's sales.

Our gross profit percentage increased 20 basis points to 51.2% compared to the first nine months of fiscal 2004.

At PQIL, the gross profit margin increased from 43.9% to 46.6%, an increase of 270 basis points compared to the first nine months of fiscal 2004. This increase is primarily due to the acquisition of Voyager, which has higher gross profit margins, partially offset by the amortization of acquired curriculum costs.

At PQBS, the gross profit margin decreased from 62.8% to 61.0%, a decrease of 180 basis points compared to the first nine months of fiscal 2004. This decrease resulted primarily from development costs incurred which includes updating an electronic parts catalog for a major OEM (Original Equipment Manufacturer), developing and updating performance management products, as well as developing the solutions we acquired in 2005.

Table of Contents*Research and Development.*

(Dollars in millions)	Thirty-Nine Weeks Ended		Inc/(Dec)	
	October 1,	October 2,		
	2005	2004	\$	%
PQIL	\$ 7.8	\$ 5.8	\$ 2.0	34.5
PQBS	7.0	6.7	0.3	4.5
Total	\$ 14.8	\$ 12.5	\$ 2.3	18.4

Our research and development expenditures include costs for database and software development, information delivery systems, and other electronic products.

Selling and Administrative.

(Dollars in millions)	Thirty-Nine Weeks Ended		Inc/(Dec)	
	October 1,	October 2,		
	2005	2004	\$	%
PQIL	\$ 67.1	\$ 47.5	\$ 19.6	41.3
PQBS	41.6	35.0	6.6	18.9
Corporate	10.6	10.2	0.4	3.9
Total	\$ 119.3	\$ 92.7	\$ 26.6	28.7

The increase at PQIL is primarily due to the acquisition of Voyager, which has higher selling and administrative costs combined with lower direct costs. The increase at PQBS is primarily due to higher sales volume, additional costs associated with new performance management products, and compensation expense related to employee severance. The increase at Corporate is primarily due to restricted stock expense in 2005.

Table of Contents*Net Interest Expense.*

(Dollars in millions)	Thirty-Nine Weeks Ended		Inc/(Dec)	
	October 1,	October 2,		
	2005	2004	\$	%
Interest income	\$ (1.1)	\$ (1.2)	\$ 0.1	8.3
Debt	20.0	8.0	12.0	150.0
Monetized contracts	4.5	5.1	(0.6)	(11.8)
Other	0.4	0.4		
Total	\$ 23.8	\$ 12.3	\$ 11.5	93.5

As a result of the Voyager acquisition, net interest expense increased approximately \$11.7 million.

Income Tax Expense.

For the thirty-nine weeks ended October 1, 2005, income taxes were recorded at an effective rate of 33.7%, compared to an effective rate of 34.3% for the thirty-nine weeks ended October 2, 2004. Income tax expense increased for the thirty-nine weeks ended October 1, 2005 due to higher operating earnings partially offset by a decrease to the effective tax rate. We expect our full year 2005 tax rate to be approximately 34%.

Liquidity

Long-term debt increased by \$380.7 million to \$575.3 million in the first nine months of fiscal 2005 compared to the first nine months of fiscal 2004.

In January 2005, we acquired Voyager Expanded Learning Inc. (see Note 13 to the interim unaudited Consolidated Financial Statements). We financed our acquisition through a new \$175 million issuance of private-placement notes and a new revolving line of credit. The private-placement notes carry a 5.38% fixed rate and mature in January 2015. Our previous revolving credit agreement was replaced with a new variable interest rate facility with capacity of \$275 million which expires in January 2010 (see Note 14 to the interim unaudited Consolidated Financial Statements).

For the first nine months of fiscal 2005, we generated cash from operations of \$34.7 million compared to generation of \$43.2 million for the first nine months of 2004, a decrease of \$8.5 million. The decrease in cash provided by continuing operations is primarily due to the following:

	Inc/(Dec) vs. 2004
	(Dollars in millions)
Net earnings	\$ 2.4
Depreciation & amortization	10.9
Accounts payable (acquisition of Voyager and timing of payments)	7.9
Accounts receivable, net (film renewals and acquisition of Voyager)	(9.1)
Deferred income taxes (additional tax payments)	(8.3)
Deferred income (decline in microfilm sales)	(6.6)
Other long-term liabilities (exclusive distributor agreement with the DMS buyer in 2004)	(5.9)

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We used \$419.9 million of cash in our investing activities for the first nine months of fiscal 2005, an increased use of \$374.2 million compared to the first nine months of 2004. This increase is primarily due to the following:

	Inc/(Dec) vs. 2004
	(Dollars in millions)
Expenditures associated with sales of discontinued operations	\$ 2.8
Acquisitions, net of cash acquired	(332.4)
Proceeds from (expenditures associated with) sales of discontinued operations (sale of DMS in 2004)	(35.9)
Property, plant, equipment, product masters, curriculum development costs, and software (accelerated digitization to meet market demands)	(10.0)

For the first nine months of fiscal 2005, we generated cash from financing activities of \$406.5 million compared to a use of \$0.3 million in the first nine months of fiscal 2004, an increase of \$406.8 million. This increase is primarily due to the following:

	Inc/(Dec) vs. 2004
	(Dollars in millions)
Net increase in debt (financing of Voyager acquisition and proceeds received from 2004 DMS sale)	\$ 416.7
Proceeds from exercise of stock options, net	5.3
Monetized future billings (decreased monetization of PQBS contracts)	(14.4)
Debt issuance costs (new debt issuance and amendment)	(2.0)

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 and meet our on-going obligations for at least the next 12 months. Under our \$275.0 million revolving credit facility, \$250.0 million was outstanding as of October 1, 2005.

Table of Contents**Financial Condition**

Selected Balance Sheet information October 1, 2005 compared to January 1, 2005

(Dollars in millions)	As of		Inc/(Dec)	
	October 1,	January 1,		
	2005	2005	\$	%
Accounts receivable, net	\$ 135.7	\$ 95.3	\$ 40.4	42.4
Other current assets	70.0	50.1	19.9	39.8
Purchased and developed software, net	38.3	41.7	(3.4)	(8.2)
Other assets	20.3	21.5	(1.2)	(5.6)
Accrued expenses	57.0	35.3	21.7	61.5
Deferred income	86.0	100.5	(14.5)	(14.4)
Other liabilities	103.1	82.5	20.6	25.0

Accounts receivable increased \$40.4 million primarily due to the acquisition of Voyager as well as annual microfilm subscriptions that were billed in the third quarter.

Other current assets increased \$19.9 million primarily due the annual microfilm subscriptions that were billed during the third quarter and timing of prepaid royalties and costs related to tradeshow.

Net purchased and developed software decreased \$3.4 million primarily due to amortization.

Accrued expenses increased \$21.7 million primarily due to an increase in accrued taxes (\$17.6 million) as a result of the 2005 projected tax liability and the reclass of a portion of the tax reserve to short term as well as an increase in accrued interest (\$4.2 million) as a result of the new debt related to the Voyager acquisition.

Deferred income decreased \$14.5 million primarily due to the seasonal nature of PQIL's deferred revenue. At year end, deferred revenue is at a high level due to the billings that occur late in the third quarter and throughout the fourth quarter.

Other liabilities increased \$20.6 million primarily due to an increase in the deferred income taxes related to the tax basis differences for Voyager intangibles (\$37.2 million). This increase was partially offset by a decline in deferred taxes (\$8.8 million) due to the provision for income taxes and a decline (\$4.9 million) due to the reclass of the tax reserve to short term.

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Selected Balance Sheet information October 1, 2005 compared to October 2, 2004.

(Dollars in millions)	As of		Inc/(Dec)	
	October 1,	October 2,		
	2005	2004	\$	%
Accounts receivable, net	\$ 135.7	\$ 113.5	\$ 22.2	19.5
Other current assets	70.0	62.6	7.4	11.8
Purchased and developed software, net	38.3	44.8	(6.5)	(14.5)
Other assets	20.3	17.3	3.0	17.3
Accrued expenses	57.0	39.5	17.5	44.3
Deferred income	86.0	114.4	(28.4)	(24.8)
Other liabilities	103.1	68.5	34.6	50.5

Accounts receivable increased \$22.2 million primarily due to the acquisition of Voyager.

Other current assets increased \$7.4 million primarily due to prepaid royalties as a result of the annual microfilm subscriptions that were billed during the third quarter.

Net purchased and developed software decreased \$6.5 million primarily due to annual amortization expense as well as lower software expenditures in the first nine months of 2005.

Other assets increased \$3.0 million primarily due to the long term deferred tax asset increase (\$3.2 million) due to the tax provision and reclassification between deferred tax balances as well as the deferred financing fees as a result of the debt refinancing related to the Voyager acquisition (\$1.9 million). These increases were offset by a decrease in licenses (\$1.9 million) due to normal amortization.

Accrued expenses increased \$17.5 million primarily due to an increase in accrued taxes (\$6.3 million) as a result of the 2005 projected tax liability and the reclass of a portion of the tax reserve to short term, an increase in accrued interest (\$6.4 million) as a result of the new debt related to the Voyager acquisition, and an increase in accrued commissions (\$2.5 million) due to the Voyager acquisition.

Deferred income decreased primarily due to unit declines in our traditional microfilm subscription products and timing of microfilm billings.

Other liabilities increased \$34.6 million primarily due to an increase in the deferred income taxes related to the tax basis differences for Voyager intangibles (\$37.2 million) partially offset by a decline in the deferred taxes (\$3.6 million) due to the provision for income taxes and reclassification of deferred balances.

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Interest Rate Risk Management

We have a revolving credit facility, which is variable-rate long-term debt that exposes us to variability in interest payments due to changes in interest rates. We had \$250.0 million outstanding on the credit facility at October 1, 2005, and the weighted-average interest rate on the credit facility was 5.587% at October 1, 2005. We have decided not to hedge this interest rate risk. Instead, we have limited this risk by maintaining \$150.0 million of our debt in the form of 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 and are due in seven equal annual payments of \$21.4 million beginning October 1, 2006 and ending October 1, 2012. Additionally, we maintain \$175.0 million of our debt in the form of long-term fixed-rate notes with a 5.38% fixed coupon rate and a 5.42% effective rate. These notes have a ten-year average life and are due in six annual payments of \$29.1 million beginning January 31, 2010 and ending January 31, 2015.

Recently Issued Financial Accounting Standards

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 154, *Accounting Changes and Error Corrections* (SFAS 154), which replaces Accounting Principles Board Opinion (APB) No. 20 *Accounting Changes* , and SFAS No. 3 *Reporting Accounting Changes in Interim Financial Statements* . SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle, and applies to all voluntary changes in accounting principles, as well as changes required by an accounting pronouncement in the unusual instance that it does not include specific transition provisions. Specifically, SFAS 154 requires retrospective application to prior periods financial statements, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS 154 does not change the transition provisions of any existing pronouncement. SFAS 154 is effective for all accounting changes and corrections of errors made beginning January 1, 2006.

In December 2004, the FASB issued Statement No. 123(R), *Share-Based Payment* . FASB Statement No. 123(R) replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* . The revised statement requires that the compensation cost relating to share-based payment transactions be recognized in financial statements and measured at the fair value of the equity instruments issued. Effective April 14, 2005, the Securities and Exchange Commission issued a new rule that amends the compliance dates for companies to implement the revised statement to the beginning of their next fiscal year after June 15, 2005, which for ProQuest is January 1, 2006. Under SFAS 123(R), we will begin recognizing expense for the portion

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of outstanding stock options for which the requisite vesting period has not yet been met and any new awards over the requisite vesting period, based on the fair value of these awards at the date of grant. We are still evaluating the impact of SFAS No. 123(R) on our financial statements.

On October 22, 2004, the President of the United States signed The American Jobs Creation Act of 2004. Among the provisions of the Act is a provision that allows for the exclusion from income of a portion of the remittances of earnings of foreign subsidiaries to U.S. shareholders through December 31, 2005. In December 2004, the FASB issued FASB Staff Position 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004* (FSP 109-2). Under the guidance of FSP 109-2, an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the American Jobs Creation Act of 2004 on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The deduction is subject to a number of limitations. We have not yet decided whether, or to what extent, foreign earnings will be repatriated. Based on our analysis to date, however, it is possible that we may repatriate an amount from \$0 to \$9.6 million. The related range of income tax effects of such repatriation cannot be reasonably estimated at the time of issuance of these financial statements. We will be in a position to finalize our assessment by December 31, 2005.

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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 affect our results of operations and financial position. We are not currently hedging this interest rate risk. Instead, we have limited this risk by maintaining \$150.0 million of our debt in the form of 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 and are due in seven equal annual payments of \$21.4 million beginning October 1, 2006 and ending October 1, 2012. Additionally, we maintain \$175.0 million of our debt in the form of long-term fixed-rate notes with a 5.38% fixed coupon rate and a 5.42% effective rate. These notes have a ten-year average life and are due in six annual payments of \$29.1 million beginning January 31, 2010 and ending January 31, 2015. 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 a limited number of 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. At October 1, 2005, we had no outstanding foreign currency forward or option contracts. The potential impact on our earnings from a 10% adverse change in quoted foreign currency rates would be immaterial.

Item 4.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our senior management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of the end of the period covered by this quarterly report (the Evaluation Date). Based on this evaluation, our chief executive officer and chief financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were

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effective such that the information relating to the Company, including consolidated subsidiaries, required to be disclosed in our Securities and Exchange Commission (SEC) reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended October 1, 2005 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents**Part II. Other Information****Item 1. Legal Proceedings**

We are involved in various legal proceedings incidental to our business. Management believes that the outcome of such proceedings will not have a material adverse effect on our consolidated operations or financial condition.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Portions of the exhibits below have been omitted pursuant to a request for confidential treatment.

Index Number	Description
2.1	Asset Purchase Agreement between ProQuest Information and Learning Company and National Archive Publishing Company dated October 28, 2005
10.1	Electronic Catalog Data License Agreement between ProQuest Business Solutions Inc. and General Motors Corporation dated September 1, 1999 and as amended on December 5, 2000, September 20, 2001 and August 8, 2005
10.2	Service Contract for Information Technology and Related Services between ProQuest Business Solutions Inc. and General Motors Corporation dated August 8, 2005.
10.3	Manufacturing Agreement between ProQuest Information and Learning Company and National Archive Publishing Company dated October 28, 2005
31.1	Section 302 Certification of the Chief Executive Officer
31.2	Section 302 Certification of the Chief Financial Officer
32.1	Certification of Alan W. Aldworth, Chairman, President and CEO of ProQuest Company, Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Kevin G. Gregory, Senior 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

* The Registrant will furnish a supplementary copy of any omitted exhibits and schedules to the SEC upon request.

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(b) Reports on Form 8-K.

The Company filed the following Current Reports on Form 8-K during the quarter ended October 1, 2005:

A current report on Form 8-K was filed on August 3, 2005, under Items 2.02 and 9.01 furnishing our financial results for the quarter ended July 2, 2005.

A current report on Form 8-K was filed on August 16, 2005, under Item 1.01 announcing the details of a sales agreement between ProQuest Business Solutions and General Motors Corporation effective August 10, 2005.

A current report on Form 8-K was filed on August 25, 2005, under Item 1.01 announcing the August 22, 2005, approval by the Compensation Committee of the Board of Directors of a discretionary bonus for Andrew Wyszowski, President of ProQuest Business Solutions.

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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 10, 2005

PROQUEST COMPANY

/s/ Alan W. Aldworth

Chairman, President and CEO

/s/ Kevin G. Gregory

Senior Vice President,

Chief Financial Officer, and

Assistant Secretary