

PROQUEST CO  
Form 10-K  
March 18, 2004  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-K**

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES**

**EXCHANGE ACT OF 1934**

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**For the fiscal year ended January 03, 2004**

**OR**

**“ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF 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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|   |  |
|---|--|
| <b>Delaware</b><br>(State or Other Jurisdiction of<br><br>Incorporation or Organization)    | <b>36-3580106</b><br>(I.R.S. Employer<br><br>Identification No.) |
| <b>300 North Zeeb Road, Ann Arbor, Michigan</b><br>(Address of Principal Executive Offices) | <b>48103-1553</b><br>(Zip Code)                                  |

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

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u>                      | <u>Name of each exchange on which registered</u> |
|---|--|
| common stock, \$.001<br><br>par value per share | New York Stock Exchange                          |

Securities registered pursuant to Section 12(g) of the Act: None

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 check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the Registrant's voting stock held by non-affiliates (based upon the per share closing price of \$26.72 on June 27, 2003) was approximately \$542 million.

The number of shares of the Registrant's common stock, \$.001 par value, outstanding as of March 11, 2004 was 28,415,205.

Documents Incorporated By Reference

(1)

**Portions of the Registrant's Notice of Annual Meeting and Proxy Statement related to the 2004 Annual Meeting of Stockholders, to be filed subsequent to the date hereof pursuant to Schedule 14A Part III.**

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|                    |  |
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| AMT                | Alternative Minimum Tax  |
| APB                | Accounting Principles Board The predecessor to the FASB.   |
| APB Opinion No. 25 | <i>Accounting for Stock Issued to Employees</i>  |
| APSP               | Automotive Parts and Service Products  |
| ASPP               | Associate Stock Purchase Plan  |
| Bigchalk           | Bigchalk, Inc.   |
| CCP2               | Courier Custom Publishing  |
| Credit Agreement   | Revolving Credit Agreement   |
| DMS                | Dealer Management System   |
| eDn                | Electronic Distribution Networks   |
| EEBO               | Early English Books Online   |
| EITF               | Emerging Issues Task Force A task force developed to assist the FASB in improving financial reporting.   |
| EITF 00-21         | <i>Revenue Arrangements with Multiple Deliverables</i>   |
| EPC                | Electronic Parts Catalog   |
| FASB               | Financial Accounting Standards Board The designated organization in the private sector for establishing standards of financial accounting and reporting. |
| FIFO               | First-in, first-out  |
| FIN 46             | FASB Interpretation No. 46 <i>Consolidation of Variable Interest Entities</i>  |
| FIN 46-R           | FASB Interpretation No. 46 Revision  |
| K-12               | Kindergarten through Twelfth Grade   |
| Locks              | Treasury Rate Locks  |
| MCW                | MotorcycleWorld.com, Inc.  |
| Micromedia         | Micromedia Ltd.  |
| MMT                | Mail and Messaging Technologies  |
| NRP                | Norman Ross Publishing   |
| OEC                | OECConnection  |
| OEM                | Original Equipment Manufacturer  |
| Option Plan        | 2003 ProQuest Strategic Performance Plan   |
| PQBS               | ProQuest Business Solutions  |
| PQIL               | ProQuest Information and Learning  |
| PSP                | Parts and Service Products   |
| SAB                | Staff Accounting Bulletin Staff Accounting Bulletins reflect the Commission staff's views regarding accounting-related disclosure practices.             |

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**GLOSSARY**

|              |   |
|--------------|---|
| SAB No. 101  | <i>Revenue Recognition in Financial Statements</i>  |
| SAB No. 104  | <i>Revenue Recognition</i>  |
| SEC          | Securities and Exchange Commission  |
| SFAS         | Statement of Financial Accounting Standards A statement promulgated by the FASB that sets forth the actual standards, the effective date, method of transition and the information regarding technical financial accounting and reporting issues. |
| SFAS No. 86  | <i>Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed</i>   |
| SFAS No. 123 | <i>Accounting for Stock Based Compensation</i>  |
| SFAS No. 131 | <i>Disclosures about Segments of an Enterprise and Related Information</i>  |
| SFAS No. 133 | <i>Accounting for Derivative Instruments and Hedging Activities</i>   |
| SFAS No. 138 | <i>Accounting for Certain Derivative Instruments and Certain Hedging Activities</i> an amendment of SFAS No. 133  |
| SFAS No. 141 | <i>Business Combinations</i>  |
| SFAS No. 142 | <i>Goodwill and Other Intangible Assets</i>   |
| SIRS         | SIRS Publishing, Inc.   |
| SOP          | Statement of Position issued by the American Institute of Certified Public Accountants  |
| SOP 98-1     | <i>Accounting for the Costs of Computer Software Developed or Obtained for Internal Use</i>   |
| U.S.         | United States   |
| U.K.         | United Kingdom  |

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**Part I**

**ProQuest Company**

**Item 1. Business.**

ProQuest Company is a leading publisher of information solutions for the education, automotive and power equipment markets. We have more than 50 years of experience in information, content development and aggregation. Our predecessor company, Bell & Howell Company, was known for creative, technology-based solutions. It was incorporated in Delaware in 1907. In 2001, we sold our legacy Imaging, Mail and Messaging Technologies and finance-related businesses and changed our name to ProQuest Company.

We provide products and services to our customers through two business segments: ProQuest Information and Learning and ProQuest Business Solutions. Financial information for each of our business segments and operations by geographic area is contained in Note 2 to the Consolidated Financial Statements which is incorporated herein by reference. An overview of our two business segments follows.

**ProQuest Information and Learning.**

**Overview PQIL**

We are a leading provider of content to schools, academic institutions and public libraries worldwide. Our products are found in over 8,000 university and college libraries worldwide and in many cases the content cannot be obtained from any other source besides the original publisher. Our business is based upon long-term relationships with our content suppliers, some of which span more than 50 years. These relationships enable us to develop our unique information capabilities and have resulted in high market penetration of our products in the markets that we serve. PQIL has licensing arrangements with over 8,000 publishers such as *The New York Times*, *The Washington Post*, *U.S. News & World Report*, *Wall Street Journal*, *Chicago Tribune*, *Los Angeles Times*, *The Economist*, *Time Inc.*, *University of California Press*, *Fairfax Publishing* and *McGraw Hill*. We have written agreements with substantially all of our content suppliers. More recently, we have been able to successfully extend many of our relationships to include various forms of electronic media, despite strong competition from other providers. We have leveraged many relationships to enter into unique or preferred content arrangements. For example, our agreement with The New York Times Company provides that we are the exclusive distributor in the education market for page images of *The New York Times* in electronic form. Our relationship with John Wiley has given us content that is not available in other aggregated databases.

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Through our own distinct methods, we convert information to microfilm and electronic form and add value to this information through our professionally prepared proprietary abstracts and indices. The result is an expansive information vault that includes content from over 18,000 periodical titles and 7,000 newspaper titles, as well as a unique content collection consisting of approximately two million dissertations, 150,000 out-of-print books, 550 research collections and over 15 million proprietary abstracts.

Along with this expansive information vault, we provide proprietary tools that assist the user in finding the right content. Our ProQuest interface assists users in the navigation of our databases and obtaining productive results by incorporating features such as contextual help, simple search-building tips, intuitive icons and dropdown menus.

Our information vault covers all major areas of study including business, humanities, social science, math and science, medical/health, ethnic and diversity studies, genealogy, psychology, biology and current events. Our content is primarily in English, but we also have content in 40 other languages including German, Latin, Portuguese, Italian, French and Spanish.

PQIL primarily serves the education market. Our products are present in most academic research libraries around the world. Our library customers generally sign a one year subscription contract to access our proprietary database or receive microform updates. In 2003, PQIL generated 33.7% of sales from published products, 26.7% of sales from general reference products, 34.8% of sales from traditional products and 4.8% of sales from classroom products. Over the last three years, we have experienced renewal rates of approximately 85% to 90%. In 2003, PQIL represented approximately 60.0% of our total sales.

## **Product Review PQIL**

### **Published Products.**

**Topic specific products.** We provide users with comprehensive databases in our flagship areas of business and economics and the arts and humanities.

Our premier business product is ABI/Inform. This was our first published product and it continues to be a leading resource for universities around the world with full text coverage of more than 1,800 of the world's business journals. The rich indexing and proprietary article abstracts created by PQIL have led to this product's installation in 45 of the top 50 business schools in the U.S. as well as 32 of the top 50 business schools in Asia and 25 of the top 40 business schools in Europe.

In the arts and humanities, our Chadwyck-Healey products have particular strengths in language and literature, history, music, performing arts and film and news and reference, pertaining to the U.S., the U.K., the European Union and Asia.



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Publications range from databases of medieval texts in Latin and Greek to up-to-the-minute reference resources such as KnowUK, an online reference service on the people, places and institutions that make up life in the U.K.

Other humanities titles include services such as Literature Online and History Online, both of which deliver a combination of primary works and extensive contextual support.

Digital Vault Initiative. In an initiative started in 1998, we selected portions of our microfilm collection to digitize and created products such as EEBO, Historical Newspapers and Digital Sanborn Maps.

EEBO is a digital compilation of the majority of the content existing in the English language developed from 1475-1700, which comprises more than 125,000 works.

Historical Newspapers, one of the largest product development efforts in our history, is an initiative which began in 2000 to digitize several of the nation's leading newspapers including *The New York Times*, *The Christian Science Monitor*, *The Washington Post*, *Wall Street Journal*, *Chicago Tribune* and *Los Angeles Times* from their first issues to the late 20<sup>th</sup> Century. During 2003, digitization and release of *The Washington Post* and *The Christian Science Monitor* as well as part of the *Los Angeles Times* was completed. We have already sold approximately 1,300 subscriptions for these products.

Digital Sanborn Maps provide electronic maps that contain detailed property and land-use records that depict such information as building outline, size and shape, construction materials, height, windows and doors, and house numbers in more than 12,000 U.S. towns and cities from 1867-1970.

Digital Vault Initiative products also include digital compilations of the Gerritsen Collection of Women's History and the American Periodical Series, which features content from over 1,000 magazine and other periodical titles from 1741-1900.

SIRS Products. SIRS Products include SIRS Discoverer®, SIRS Interactive Citizenship® and SIRS Researcher®. SIRS Discoverer® includes full-text articles and images from over 1,600 domestic and international newspapers, magazines and government documents for students in grades 1 to 9. SIRS Interactive Citizenship® is an online program that helps users learn about every facet of government and the philosophies and concepts underlying world affairs and economics. SIRS Researcher® is a highly-acclaimed age appropriate general reference database containing full-text articles exploring social, scientific, health, historic, business, economic, political and global issues.

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**Digital Dissertations.** PQIL is the recognized publisher and repository for dissertations and master s theses. ProQuest Digital Dissertations provides electronic access to over 455,000 titles from our vast collection.

### **General Reference Products.**

**Higher Education.** Introduced in 1995, ProQuest online products allow users to search and find useful information from more than 6,000 periodicals, newspapers and other resources originating after 1985. Our products help librarians build information bridges that enable users to quickly locate resources appropriate to their needs. These products combine easy-to-use search menus, current information content in a variety of formats, convenient delivery options and support. We provide the tools to efficiently create predefined searches, electronic reserve rooms for multiple simultaneous users, digital magazine racks, reading rooms and table-of-content services. The quality indexing we create ensures unparalleled accuracy and specificity, which allows the users searches to be more successful. All online text is customizable and allows easy integration with our customers other information holdings. Our proprietary engine helps librarians by providing easy-to-use templates, copy-and-paste technology and step-by-step help. Librarians can link selected ProQuest online content to their online catalogs, library websites and other web-based resources.

**K-12.** K-12 products include eLibrary®, Bigchalk Library and Bigchalk Multimedia, which are general reference products for the K-12 market segment and include full-text articles, maps, pictures, web links and audio and video clips.

**Reseller.** PQIL provides electronic content to premier information companies such as Factiva and LexisNexis, which resell the content to corporate desktop customers. Under written agreements with these companies, we generally receive revenue based on the amount of ProQuest content accessed by their customers.

### **Traditional Products.**

**Microfilm Products.** We sell microform newspaper and periodical subscriptions, microform newspaper and periodical backfiles, out-of-print books, phonefiche and scholarly research collections. Today, our microform vault is one of the largest commercial archives in the world. Newspapers, magazines and journals are marketed as complete microfilm sets of both publishers and authors. In addition, we create abstracts and indices of business, general interest and science and humanities articles. Despite the growth of electronic products, we believe that there is still demand for our microfilm products

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because microfilm products may be the only source of out-of-print information, are a less expensive alternative for storing content and are considered a more permanent archival medium than online access.

**Paper Products.** Copies of our dissertations and many of the newspaper and dissertation indices sold through our microfilm products are available in paper format. We also offer over 150,000 out-of-print books in paper format on a print-on-demand basis. Copies of the more than two million doctoral dissertations in our archive are the most common product delivered in paper format. PQIL is the recognized repository for dissertations and master s theses and the designated digital archive for the Library of Congress, having begun publishing titles in 1938. We provide worldwide access to two million citations, of which more than 1.7 million are available in full text. ProQuest publishes over 55,000 new titles each year from over 700 institutions.

## **Classroom Products.**

Our classroom products include custom online and print course materials and textbook supplements as well as more comprehensive study aids. These products are in more than 1,000 universities throughout the U.S.

**XanEdu®.** XanEdu products further leverage our content through the development of supplemental curriculum materials for the college classroom. XanEdu products provide premium online content targeted directly at students and faculty of higher education institutions. XanEdu products have been adopted in over 1,000 of the 4,000 educational institutions in the U.S. Nearly 14,000 coursepack titles were produced during 2003.

Our XanEdu coursepack products include customizable products and textbook supplements from our vast archive of copyright-cleared content. Our copyright clearance services offer a streamlined solution for clearing content not currently found in our vast archive of XanEdu products. We offer instructors a turnkey solution to building XanEdu coursepacks, with the ultimate choice of distribution either online, in print, or a combination of the two. We have relationships with major textbook publishers, Pearson and John Wiley, to create online supplemental materials that expand and enrich the publisher s textbook.

## **ProQuest Business Solutions.**

### **Overview PQBS**

PQBS is the global leader in the development and deployment of parts and service information products and dealer performance applications for the automotive market. We pioneered the EPC in

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1985. In the years since then, we have added features and functions to the EPC such that our product is no longer merely just an EPC. Our APSP offer information on more automobile brands than similar products from any other provider, and provide a powerful and flexible technical reference system using CD-ROM and web-based technology. Over 35,000 automobile dealerships now use our APSP worldwide. We currently publish APSP for approximately 32 automobile brands manufactured by General Motors, Ford, DaimlerChrysler, Honda/Acura, Toyota/Lexus, Hyundai, Kia, Isuzu, Lotus, Mazda, Mercedes-Benz, Nissan, Saturn, Subaru, Suzuki and Volvo, among others. Our customers typically sign three to five year contracts, and we have experienced renewal rates of approximately 85% over the last three years.

We also provide automobile OEMs and their dealerships with management information systems that monitor and evaluate dealer performance in areas such as product inventory, pricing, territory, margins and OEM support.

PQBS provides DMS to the power equipment markets, which enable dealers in those markets to better manage inventory, customer service and other aspects of their businesses. We also provide PSP to the power equipment market. We have various flexible business arrangements to suit the requirements of our customers, for example we have exclusive provider arrangements with certain OEMs and for other OEMs we provide individual contracts to their franchised dealerships.

PQBS sells primarily to the automotive and power equipment markets. In 2003, PQBS generated 84.5% of sales from automotive products, 13.8% of sales from power equipment - electronic products, 1.1% of sales from power equipment - film products and 0.6% of sales from other products. In 2003, PQBS represented approximately 40.0% of our total sales.

## **Product Review PQBS**

### Automotive Products.

Automotive Parts and Service Products. For over 19 years, we have been developing customized market-leading APSP solutions for the automotive dealer. We create and market turnkey solutions in 17 languages that allow automotive dealerships to electronically access manufacturers' proprietary technical documentation (such as parts catalogs, parts and service bulletins and other reference materials) and to interface with other important information systems (such as inventory management and billing) within the dealership. These applications help dealers improve business processes by transforming complex technical data into answers. Everyday, manufacturers of 32 automobile brands and over 35,000 automotive dealerships worldwide utilize our products.

Performance Management Products. We offer management information systems to both OEMs and their dealerships in the automotive industry. We collect, manage and publish statistics on dealer performance such as product inventory, pricing, territory, margins and OEM support and use this content to produce our performance management products. These products

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monitor and evaluate a dealer's performance against the dealer's historical operations as well as the dealer market in general and run diagnostics of essential dealer metrics to identify underperforming areas of a dealer's business. Other products help develop hypothetical and actual business plans and projections for a dealer based on current conditions in the dealer market. We provide performance management products for more than 31 brands for approximately 18,000 dealers worldwide.

### *Power Equipment Products.*

**Power Equipment Products.** Our power equipment unit provides DMS and PSP to motorcycle, marine, recreational vehicle, lawn & garden and heavy equipment OEMs and their dealers. These systems include accounting, customer service and inventory as well as PSP modules that help dealers manage every aspect of their business. We also design, develop and distribute software systems that automate product, e-commerce and corporate support functions between manufacturers, dealers and their customers in the power equipment market.

### *Strategic Alliance.*

**OECConnection.** OEC is a joint venture among PQBS, General Motors, Ford Motor Company and DaimlerChrysler. OEC extends the established EPC business by providing dealers and their wholesale customers a comprehensive, secure e-commerce portal. OEC has established and maintains this portal with the primary objective of facilitating the sale of original equipment automotive parts delivered through the franchised automotive dealership channel. OEC's current product offerings include D2DLink which is an advanced parts locator system and CollisionLink , which allows the dealer to extend sales to their wholesale customers, primarily collision shops. Eventually, OEC expects to expand its customer base to include dealers, collision shops, installers and fleet facilities.

### **Business Review.**

**Research and Development.** We continually seek to take advantage of new product and technology opportunities and view product development to be essential to maintaining and growing our market position. We have approximately 150 people each at PQIL and PQBS on our research and development and software engineering staffs. Our research and development expenditures include expenses primarily for database development and information delivery systems and is primarily company sponsored.

**Sales & Marketing.** PQIL and PQBS employ separate sales forces both domestically and internationally. Our published products, general reference products and traditional products are generally sold directly to libraries. Classroom products are marketed to higher education institutions and professors to

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encourage the use of XanEdu coursepacks in the classroom curricula but are sold to students via bookstores and online.

Within our PQIL North American sales force, we have dedicated sales representatives for each major product type: traditional (14 salespeople), published and general reference (39 salespeople), classroom (18 salespeople) and K-12 (35 salespeople) for a total of 106 salespeople. Outside of the U.S. and Canada, we use a direct international sales force comprised of 55 sales representatives who sell the full portfolio of products to markets across the globe. We augment this direct sales force with third party international distributors. We use a variety of approaches to market our products, including trade shows, direct mailings, product brochures and online product trials.

Within our PQBS sales force, we sell automotive and power equipment products both domestically and internationally through an internal sales force of 76 salespeople. We market our products and services to two targeted groups: OEMs and individual dealership locations. To effectively reach the large OEMs, such as General Motors, DaimlerChrysler, Ford and Toyota, we have strategically deployed a team of business development professionals in the world's principal automotive centers in the U.S., U.K., Germany and Japan. In the U.S. and Canada, products and services are sold directly to individual automotive and power equipment dealerships using an experienced sales force (60 salespeople). We also utilize Reynolds and Reynolds as a distributor to supplement the efforts of our direct sales force.

## **Proprietary Rights**

We regard certain of our technologies and content as proprietary and rely primarily on a combination of patent, copyright, trademark and trade secret laws and employee non-disclosure agreements to protect our rights. There can be no assurance that the steps we have taken will be adequate to protect our rights. Although we do not believe that we have infringed on the proprietary rights of third parties, there is no assurance that a third party will not make a contrary claim. The cost of responding to such an assertion may be material, whether or not the assertion is valid.

We also license from third parties certain technology upon which we rely to deliver our products and services to our customers. This technology may not continue to be available to us on commercially reasonable terms or at all. Moreover, we may face claims from persons who claim that their licensed technologies infringe upon or violate those persons' proprietary rights. These types of claims, regardless of the outcome, may be costly to defend and may divert our management's efforts and resources.

We obtain most of the information and content used in our products from license agreements with third parties. These licenses are generally limited in scope and are nonexclusive.

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Licenses for content used in our PQIL segment generally have automatic renewal terms unless terminated by us or the third party publishers. At PQIL, we have written agreements with substantially all of our content suppliers. In addition, we have been able to successfully extend many of our relationships to include various forms of electronic media, despite strong competition from other providers of electronic media. We have leveraged many of these relationships to enter into unique and exclusive content supply arrangements. For example, our agreement with The New York Times Company provides that we are the exclusive distributor in the education market for page images of *The New York Times* in electronic form. Our licenses with automotive and power equipment manufacturers that are used in our PQBS segment generally have a term of five years with automatic renewal terms ranging from one to three years. Generally, the licensors also have agreed to provide content so that we can satisfy customer agreements that extend beyond the term of the license agreement. These licenses allow us to use the content in many media formats including electronic, microform or paper.

ProQuest®, XanEdu®, SIRS Discoverer®, SIRS Interactive Citizenship®, SIRS Researcher®, eLibrary®, Bigchalk Library and Bigchalk Multimedia are our trademarks. Each trademark, trade name or service mark of any other company appearing in this Annual Report on Form 10-K belongs to its holder.

## **Seasonality**

Our quarterly operating results fluctuate due to a number of factors including the sales cycle, the amount and timing of new products and our spending patterns. In addition, our customers experience cyclical funding issues that can impact our revenue patterns. Historically, we have experienced our lowest net sales, earnings and cash flow in the first fiscal quarter with our highest net sales and earnings in the fourth fiscal quarter. Due to this seasonality, we maintain a Credit Agreement to fund interim cash requirements. See Note 12 to our Consolidated Financial Statements which is incorporated herein by reference.

## **Competition**

The market for our products and services is highly competitive. In our PQIL segment, our main competitors are Gale Group, a division of Thomson Corporation, and EBSCO Publishing, a division of EBSCO Industries. For distribution of dissertations, we compete with universities. PQIL competitors also include free Internet sites such as Google, Yahoo and MSN, newspaper and book publishers, software publishers and electronic commerce providers. Furthermore, our print classroom products compete with small print shops. Barriers to entering the education market, especially the online component, are relatively low, and we expect competition in this market to intensify.

In our PQBS segment, we compete with Universal Computer Systems, Inc., ARI Network Services, Inc., Infomedia,

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Enigma and the proprietary electronic parts systems of certain OEMs such as DaimlerChrysler, Harley-Davidson and Honda Motor Company.

Many of our current and potential future competitors may have substantially greater financial resources, name recognition, experience and larger customer bases than we do. Accordingly, our competitors may be able to respond more quickly to new technologies and changes in customer requirements, have more favorable access to suppliers and devote greater resources to the development and sale of their products. Any of the above results could adversely affect our ability to attract and retain customers and harm our business.

## **Government Regulations**

We are subject to various federal, state, local and foreign environmental laws and regulations limiting the discharge, storage, handling and disposal of a variety of substances. Our operations are also governed by laws and regulations relating to equal employment opportunity, workplace safety and worker health, including the Occupational Safety and Health Act and regulations hereunder. We believe that we are in compliance in all material respects with applicable laws and regulations and that future compliance will not have a material adverse effect upon our consolidated operations or financial condition.

Due to the increasing usage of the Internet, federal and state governments may adopt laws or regulations regarding commercial online services, the Internet, user privacy, intellectual property rights, content regulation and taxation. Laws and regulations directly applicable to online commerce or Internet communications are becoming more prevalent and could expose us to substantial liability. For example, certain U.S. laws, such as the federal Digital Millennium Copyright Act and various federal laws aimed at protecting children and limiting the content made available to them, could expose us to substantial liability. Furthermore, various proposals at the federal, state and local level could impose additional taxes on Internet sales. These laws, regulations and proposals could decrease Internet commerce and other Internet uses and adversely affect the success of our online products.

## **Concentration Risk**

We are not dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. In fiscal 2003, no single customer represented more than 5% of our consolidated net sales. Our top five customers accounted for approximately 11% of consolidated net sales in fiscal 2003.



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**Employees**

Our future success is substantially dependent on the performance of our management team and our ability to attract and retain qualified technical and managerial personnel.

As of January 3, 2004, we had the following number of employees, broken out by segment:

|                  | <b>Employees</b> |
|------------------|------------------|
| <b>PQIL</b>      | <b>1,596</b>     |
| <b>PQBS</b>      | <b>902</b>       |
| <b>Corporate</b> | <b>46</b>        |
| <b>Total</b>     | <b>2,544</b>     |

None of our employees are represented by collective bargaining agreements.

**Website Access to Company Reports**

We make available free of charge through our website, [www.proquestcompany.com](http://www.proquestcompany.com), our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practical after such material is electronically filed with the SEC.

We are providing the address to our website solely for the information to our investors. Our website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

**Code of Ethics**

We have adopted a code of ethics for all of our employees in finance, including our Chief Financial Officer as well as our Chief Executive Officer. We adopted this code to promote such standards as (1) honest and ethical conduct; (2) full, fair, accurate, timely and understandable disclosure in our periodic reports; and (3) compliance with applicable governmental rules and regulations.

Also, in January 2004, we implemented a whistleblower reporting tool, as required under the Sarbanes-Oxley Act of 2002, by engaging a third party service that provides anonymous reporting for serious workplace ethical issues via phone and/or the Internet. Further information will be

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set forth in the Company's Notice of Annual Meeting and Proxy Statement (under the caption "Corporate Governance").

### **Item 2. Properties.**

Our principal executive and administrative office is located in Ann Arbor, Michigan. The following table provides certain summary information in square feet with respect to the facilities that we own or lease in connection with our businesses:

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|               | <u>PQIL</u>    | <u>PQBS</u>    | <u>Corporate</u> | <u>Total</u>   |
|---------------|----------------|----------------|------------------|----------------|
| <b>Owned</b>  | <b>159,000</b> | <b>113,000</b> | <b>12,000</b>    | <b>284,000</b> |
| <b>Leased</b> | <b>435,900</b> | <b>182,550</b> | <b>16,000</b>    | <b>634,450</b> |
| <b>Total</b>  | <b>594,900</b> | <b>295,550</b> | <b>28,000</b>    | <b>918,450</b> |

All of the facilities that we own are in the U.S. We lease facilities primarily in the U.S., Canada and the U.K. We believe that the termination of any one of the leases, some of which are long-term, would not significantly affect our operations.

On January 15, 2004, we entered into an agreement that ended a lease in the U.K. for a 16,000 sq. ft. facility. Previously this facility housed operations that were sold in 2001 and were temporarily sub-leased to the new owners of that operation.

We believe the buildings, machinery and equipment used in our operations (whether owned or leased) generally to be in good condition and adequate for our current needs and that additional space will be available as needed.

**Item 3. 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 upon our consolidated operations or financial condition.

**Item 4. Submission of Matters to a Vote of Security Holders.**

No matters were submitted to a vote of Shareholders during the fourth quarter of our fiscal year ended January 3, 2004.

**Table of Contents****Directors and Executive Officers**

The following table provides information about our directors and executive officers as of March 1, 2004:

| <u>Name</u>  | <u>Age</u> | <u>Position at the Company</u>   |
|--|------------|--|
| <b><u>Board of Directors</u></b>                         |            |  |
| James P. Roemer  | 56         | Chairman of the Board  |
| Alan W. Aldworth   | 49         | President and Chief Executive Officer                                  |
| David Bonderman  | 61         | Director   |
| David G. Brown   | 47         | Director   |
| Todd S. Nelson   | 44         | Director   |
| William E. Oberndorf                                     | 50         | Director   |
| Linda G. Roberts   | 62         | Director   |
| Gary L. Roubos   | 67         | Director   |
| William J. White   | 65         | Director   |
| <b><u>Executive Committee (led by Alan Aldworth)</u></b> |            |  |
| Kevin G. Gregory   | 40         | Senior Vice President, Chief Financial Officer and Assistant Secretary |
| Todd W. Buchardt   | 44         | Senior Vice President, General Counsel and Secretary                   |
| Linda Longo-Kazanava                                     | 51         | Senior Vice President, Human Resources and Business Optimization       |
| Bruce E. Rhoades   | 55         | Senior Vice President, Strategy and Technology                         |
| Andrew H. Wyszkowski                                     | 50         | President, ProQuest Business Solutions                                 |
| Ronald Klausner  | 50         | President, ProQuest Information and Learning                           |

The business experience and certain other information relating to each of our directors and executive officers are set forth below:

**Board of Directors.**

*James P. Roemer* has been Chairman of the Board since January 1998 and has been a Director since February 1995. From January 2002 to January 2003, Mr. Roemer also served as our Chief Executive Officer. From February 1997 to January 2002, Mr. Roemer served as our President and Chief Executive Officer. From February 1995 to February 1997, he served as our President and

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Chief Operating Officer. From January 1994 to June 1995, he served as President and Chief Executive Officer of ProQuest Information and Learning Company. In October 1991, Mr. Roemer joined ProQuest as Vice President and President and Chief Operating Officer of ProQuest Business Solutions Company. He was promoted to President and Chief Executive Officer of ProQuest Business Solutions Company in September 1993. Prior to joining ProQuest Company, Mr. Roemer was President of the Michie Group, Mead Data Central from December 1989 to October 1991. From January 1982 to December 1989 he was Vice President and General Manager of LexisNexis, an online information service. From April 1981 to December 1982 he served as acting President of Mead Data Central.

*Alan W. Aldworth* has been President and Chief Executive Officer since January 2003. In January 2002 Mr. Aldworth was elected as President and Chief Operating Officer and has been a Director since May 2001. Mr. Aldworth joined ProQuest as Vice President and Chief Financial Officer in October 2000. Prior to joining us, he spent 18 years at Tribune Company where he held a variety of senior financial management and general management positions, the most recent of which was as the General Manager of Tribune Education Company.

*David Bonderman* has been a Director since December 1987. He is the founding partner of Texas Pacific Group (a private investment company) and has been the Managing General Partner since December 1992. He is also a Director of Co-Star Group, Inc., Continental Airlines, Inc., Ducati Motor Holding S.P.A., Gemplus International SA, Seagate Technology and Ryanair Holdings plc.

*David G. Brown* has been a Director since January 1994. He has been the Managing Partner of Oak Hill Venture Partners since August 1999 and a Principal in Arbor Investors LLC since August 1995, Chief Financial Officer of Keystone, Inc. from September 1998 to February 2000, and a Vice President of Keystone, Inc. since August 1993. Prior to joining Keystone, Mr. Brown was a Vice President in the Corporate Finance Department of Salomon Brothers Inc. from August 1985 to July 1993. He is a Director of eGain Communications, Perfect Commerce, Lattice Communications, Lightning Finance, MarketTools, Sitara Networks, Sandial Networks, and WOW Networks.

*Todd S. Nelson* has been a Director since January 2004. He has been Chief Executive Officer of Apollo Group, Inc. since August 2001 and President since February 1998. Mr. Nelson joined Apollo Group in 1987 as Director of University of Phoenix's Utah campus, became Executive Vice President of the University of Phoenix in 1989, and became Vice President of Apollo Group, Inc. in 1994. Prior to joining Apollo Group, he was General Manager, from 1985 to 1987, at Amembal and Isom, a management training company. From 1984 to 1985, Mr. Nelson was General Manager of Vickers & Company, a diversified holding company. From 1983 to

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1984, he was a Marketing Director at Summa Corporation, a recreations properties company, as well as a faculty member at the University of Nevada at Las Vegas. Mr. Nelson is a Director of Apollo Group, Inc.

*William E. Oberndorf* has been a Director since July 1988. He has served as Managing Director of SPO Partners & Co. since March 1991. He is a Director of Rosewood Hotels and Resorts and a Director Emeritus of Plum Creek Timber Company.

*Linda G. Roberts* has been a Director since January 2004. Since leaving government in January 2001, Dr. Roberts has served as advisor, consultant, and board director in various organizations, including state and local governments, foundations, non-profit organizations, corporations and start-up companies. Prior to that, Dr. Roberts directed the U.S. Department of Education's Office of Educational Technology from its inception in September 1993 to January 2001, and served as the Secretary of Education's Special Advisor on Technology. From 1984 to 1993, she led the research on educational technology at the Congressional Office of Technology Assessment. Dr. Roberts also served as an advisor to the Children's Television Workshop during the development of "Sesame Street" and "The Electric Company". From 1981 to 1984, she served the U.S. Department of Education in the Office of Libraries and Learning Technologies and the Office of Educational Research and Improvement. Dr. Roberts is a Senior Advisor to Carnegie Learning, Inc., Classroom Connect, Apple Computer and several leading technology companies. She is a Trustee of the Board of the Sesame Workshop, and a Trustee of the Education Development Corporation. Dr. Roberts is also a Director of Wireless Generation and Carnegie Learning, Inc.

*Gary L. Roubos* has been a Director since February 1994. He was Chairman of the Board of Dover Corporation from August 1989 to May 1998 and was President from May 1977 to May 1993. He is also a Director of Dover Corporation and Omnicom Group, Inc.

*William J. White* has been a Director since February 1990 and was Chairman of the Board from February 1990 to January 1998. He served as our Chief Executive Officer from February 1990 to February 1997 and was our President from February 1990 to February 1995. Since January 1998 he has been a Professor of Industrial Engineering and Management Science at Northwestern University. He is also a Director of Packaging Dynamics Corporation and Reader's Digest Association, Inc.

**Executive Committee (led by Alan Aldworth).**

*Kevin G. Gregory* was appointed Senior Vice President in November 2002 and has been our Vice President and Chief Financial Officer since April 2002. From February 2001 to April 2002, he served as Vice President, Controller and Treasurer, and from

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August 1996 to February 2001, he served as Tax Counsel and Vice President Tax. Prior to joining us, he was Senior Manager at Ernst & Young LLP, and prior to that spent seven years at PricewaterhouseCoopers LLP.

*Todd W. Buchardt* was appointed Senior Vice President in November 2002, Vice President in March 2000, General Counsel in April 1998, and in September 1998 was elected to the additional office of Secretary. Prior to joining us, he held various legal positions with First Data Corporation from 1986 to 1998.

*Linda Longo-Kazanova* was appointed Senior Vice President, Human Resources & Business Optimization in November 2002 and has been our Vice President, Human Resources since May 2000. Prior to joining us, she was Senior Vice President, Human Resources-North America, for Information Resources, Inc. from 1995 to 2000. From 1985 to 1995, she held various human resource positions with Kraft Foods, Inc.

*Bruce E. Rhoades* has been Senior Vice President, Strategy & Technology since April 2003. He was President and Chief Executive Officer of ProQuest Business Solutions from January 2001 to April 2003. He joined us in 1999 and has managed several of our business units. Prior to joining us, he was Chief Executive Officer of a consulting practice specializing in business and product strategy formulation, software and information product development, and strategic alliances and acquisitions from 1995 to 1999. Prior to that, he held a number of executive positions at LexisNexis Group from 1979 to 1995, and held vari