

INFOUSA INC
Form 10-Q
May 15, 2002

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2002 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 0-19598

infoUSA INC.

(exact name of registrant specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

47-0751545

(I.R.S. Employer Identification Number)

5711 SOUTH 86TH CIRCLE, OMAHA, NEBRASKA

(Address of principal executive offices)

68127

(Zip Code)

Registrant's telephone number, including area code (402) 593-4500

(Former name, former address and former fiscal year,
if changed since last report)

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 at least the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

50,909,507 shares of Common Stock at May 8, 2002

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infoUSA INC.

FORM 10-Q

FOR THE QUARTER ENDED

MARCH 31, 2002

PART I

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

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infoUSA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	MARCH 31, 2002	DECEMBER 31, 2001
	<u> </u>	<u> </u>
(UNAUDITED)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 147	\$ 4,382
Marketable securities	1,037	1,037
Trade accounts receivable, net of allowances of \$4,508 and \$4,670, respectively	45,283	44,890
List brokerage trade accounts receivable	21,867	16,992
Prepaid expenses	7,196	6,861
Deferred income taxes		1,251
Deferred marketing costs	2,073	2,058
	<u> </u>	<u> </u>
Total current assets	77,603	77,471
	<u> </u>	<u> </u>
Property and equipment, net	50,026	51,640
Intangible assets, net	279,923	284,675
Other assets	5,177	5,302
	<u> </u>	<u> </u>
	\$ 412,729	\$ 419,088
	<u> </u>	<u> </u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 20,755	\$ 19,770
Accounts payable	9,004	7,760
List brokerage trade accounts payable	17,320	15,031
Accrued payroll expenses	6,568	7,891
Income taxes payable	4,262	4,030
Accrued expenses	7,483	9,240
Deferred income taxes	1,162	
Deferred revenues	17,075	17,419
	<u> </u>	<u> </u>
Total current liabilities	83,629	81,141
	<u> </u>	<u> </u>
Long-term debt, net of current portion	196,989	205,900
Deferred income taxes	24,763	27,250
Deferred revenue	6,000	9,000
Stockholders equity:		
Preferred stock, \$.0025 par value. Authorized 5,000,000 shares; none issued or outstanding		
Common stock, \$.0025 par value. Authorized 295,000,000 shares; 51,861,307 shares issued and 50,902,216 outstanding at March 31, 2002 and 51,850,339 shares issued and 50,891,248 outstanding at December 31, 2001	130	130
Paid-in capital	93,590	93,551
Retained earnings	16,667	11,801
Treasury stock, at cost, 959,091 shares held at March 31, 2002 and 959,091 held at December 31, 2001	(7,028)	(7,028)
Notes receivable from officers	(1,230)	(1,296)
Accumulated other comprehensive loss	(781)	(1,361)

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Total stockholders' equity	<u>101,348</u>	<u>95,797</u>
	<u>\$ 412,729</u>	<u>\$ 419,088</u>

The accompanying notes are an integral part of the consolidated financial statements.

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infoUSA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(UNAUDITED)	
Net sales	\$76,723	\$73,853
Costs and expenses:		
Database and production costs (excluding non-cash stock compensation expense of \$8 for the period ended March 31, 2001)	21,260	21,387
Selling, general and administrative (excluding non-cash stock compensation expense of \$69 for the period ended March 31, 2001)	31,881	27,261
Depreciation and amortization	7,104	12,733
Non-cash stock compensation expense		77
Restructuring charges	167	876
Acquisition costs	63	
	60,475	62,334
Total operating costs and expenses		
Operating income	16,248	11,519
Other income (expense):		
Investment income	70	245
Loss on interest rate swap agreement	(1,204)	
Minority interest in gain of subsidiary		(60)
Interest expense	(4,414)	(6,914)
	10,700	4,790
Income before income taxes and extraordinary item		
Income taxes	4,065	2,936
	6,635	1,854
Income before extraordinary item		
Extraordinary item, net of tax	(1,769)	
	4,866	1,854
Net income	\$ 4,866	\$ 1,854
BASIC EARNINGS PER SHARE:		
Income before extraordinary item	\$ 0.13	\$ 0.04
Loss on extraordinary item, net of tax	(0.03)	
	\$ 0.10	\$ 0.04
Net income	\$ 0.10	\$ 0.04
Weighted average shares outstanding	50,908	50,609
	50,908	50,609
DILUTED EARNINGS PER SHARE:		
Income before extraordinary item	\$ 0.13	\$ 0.04
Loss on extraordinary item, net of tax	(0.03)	
	\$ 0.10	\$ 0.04
Net income	\$ 0.10	\$ 0.04
Weighted average shares outstanding	51,223	50,609
	51,223	50,609

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The accompanying notes are an integral part of the consolidated financial statements.

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infoUSA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,866	\$ 1,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,104	12,733
Amortization of deferred financing costs	285	289
Deferred income taxes	(74)	(4,398)
Non-cash stock option compensation expense		77
Non-cash 401(k) contribution in common stock		120
Loss on interest rate swap agreement	1,204	
Extraordinary item - loss on extinguishment of debt	1,769	
Minority interest in gain of subsidiary		60
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(350)	5,752
List brokerage trade accounts receivable	(1,251)	(583)
Prepaid expenses	(84)	(1,308)
Deferred marketing costs	(15)	589
Accounts payable	1,126	(3,276)
List brokerage trade accounts payable	408	147
Income taxes receivable and payable, net	231	6,184
Accrued expenses and deferred revenue	(6,549)	(5,007)
	8,670	13,233
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of other investments		(100)
Purchases of property and equipment	(1,244)	(1,023)
Acquisitions of businesses, net of cash acquired	(2,183)	
Software and database development costs	(708)	(811)
	(4,135)	(1,934)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(7,926)	(10,053)
Deferred financing costs paid	(949)	
Proceeds from exercise of stock options	105	
	(8,770)	(10,053)
Net cash used in financing activities	(8,770)	(10,053)
Net increase (decrease) in cash and cash equivalents	(4,235)	1,246
Cash and cash equivalents, beginning	4,382	21,693
	\$ 147	\$ 22,939
Supplemental cash flow information:		
Interest paid	\$ 1,853	\$ 3,737
	\$ 3,315	\$ 1,150
Income taxes paid	\$ 3,315	\$ 1,150

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The accompanying notes are an integral part of the consolidated financial statements.

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infoUSA INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying unaudited financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, contain all adjustments, consisting of normal recurring adjustments, necessary to fairly present the financial information included therein.

The Company suggests that this financial data be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2001 included in the Company's 2001 Annual Report on Form 10-K, filed with the Securities and Exchange Commission. Results for the interim period presented are not necessarily indicative of results to be expected for the entire year.

The Company adopted certain provisions of SFAS No. 142 (SFAS 142), Goodwill and Other Intangible Assets effective January 1, 2002. Therefore, we ceased to amortize approximately \$16.5 million of goodwill effective January 1, 2002, that we had amortized during 2001. In accordance with SFAS 142, the Company is required to perform an initial impairment test of goodwill in 2002 and update the impairment test annually. We expect to complete our initial impairment test during the first six months of 2002.

2. EARNINGS PER SHARE INFORMATION

The following table shows the amounts used in computing earnings per share and the effect on the weighted average number of shares of dilutive potential common stock. For the quarter ended March 31, 2001, the average market price of the Company's common stock was less than the exercise price of all the Company's outstanding common stock subject to option.

	THREE MONTHS ENDED MARCH 31,	
	(In thousands)	
	2002	2001
Weighted average number of shares outstanding used in basic EPS	50,908	50,609
Net additional common stock equivalent shares outstanding after assumed exercise of stock options	315	—
Weighted average number of shares outstanding used in diluted EPS	51,223	50,609

3. SEGMENT INFORMATION

The Company currently manages existing operations utilizing financial information accumulated and reported for two business segments.

The small business segment principally engages in the selling of sales lead generation, business directories and consumer DVD products to small and medium sized companies, small office and home office businesses and individual consumers. This segment includes the sale of content via the Internet.

The large business segment principally engages in the selling of data processing services, licensed databases, database marketing solutions and list brokerage and list management services to large companies. This segment includes the licensing of databases for Internet directory assistance services.

The small business and large business segments reflect actual net sales, direct order production, and identifiable direct sales and marketing costs related to their operations. The remaining indirect costs are presented as a reconciling item in corporate activities.

Corporate activities principally represent the information systems technology, database compilation, database verification, and administrative functions of the Company. Investment income, interest expense, income taxes, amortization of intangibles, and depreciation expense are only

recorded in corporate activities. The Company does not allocate these costs to the two business

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segments. The Company records unusual or non-recurring items including acquisition costs, non-cash stock compensation expense, asset impairments and other extraordinary items in corporate activities to allow for the analysis of the sales business segments excluding such unusual or non-recurring charges.

The Company accounts for property and equipment on a consolidated basis. The Company's property and equipment is shared by the Company's business segments. Depreciation expense is recorded in corporate activities.

The Company has no intercompany sales or intercompany expense transactions. Accordingly, there are no adjustments necessary to eliminate amounts between the Company's segments.

The following table summarizes segment information:

FOR THE THREE MONTHS ENDED MARCH 31, 2002				
	Small Business	Large Business	Corporate Activities	Consolidated Total
	(In thousands)			
Net sales	\$ 39,348	\$ 37,375	\$	\$ 76,723
Acquisition costs			63	63
Operating income (loss)	15,496	20,312	(19,560)	16,248
Investment income			(1,204)	(1,204)
Loss on interest swap agreement			70	70
Interest expense			4,414	4,414
Income (loss) before income taxes and extraordinary item, net of tax	15,496	20,312	(25,108)	10,700

FOR THE THREE MONTHS ENDED MARCH 31, 2001				
	Small Business	Large Business	Corporate Activities	Consolidated Total
	(In thousands)			
Net sales	\$ 35,415	\$ 38,438	\$	\$ 73,853
Non-cash stock compensation			77	77
Operating income (loss)	17,383	21,216	(27,080)	11,519
Investment income			245	245
Minority interest in gain of subsidiary			(60)	(60)
Interest expense			6,914	6,914
Income (loss) before income taxes	17,383	21,216	(33,809)	4,790

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4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), including the components of other comprehensive income (loss), is as follows:

FOR THE THREE MONTHS ENDED	
MARCH 31, 2002	MARCH 31, 2001
(In thousands)	