

INFOUSA INC
Form 10-Q
November 13, 2003

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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 September 30, 2003 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	47-0751545
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
5711 SOUTH 86TH CIRCLE, OMAHA, NEBRASKA	68127
(Address of principal executive offices)	(Zip Code)

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

N/A

(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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). 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.

52,242,941 shares of Common Stock at November 6, 2003

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FORM 10-Q

FOR THE QUARTER ENDED

September 30, 2003

PART I

FINANCIAL INFORMATION

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ITEM 1. FINANCIAL STATEMENTS

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

	<u>September 30, 2003</u>	<u>December 31, 2002</u>
(UNAUDITED)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,141	\$ 6,285
Marketable securities	1,007	887
Trade accounts receivable, net of allowances of \$2,829 and \$3,673, respectively	34,152	39,352
Officer note receivable	510	510
List brokerage trade accounts receivable	12,621	16,635
Income taxes receivable	1,439	
Prepaid expenses	6,832	4,515
Deferred marketing costs	3,599	1,746
	<u>63,301</u>	<u>69,930</u>
Property and equipment, net	43,480	45,756
Intangible assets, net	263,982	273,246
Other assets	4,990	4,454
	<u>\$ 375,753</u>	<u>\$ 393,386</u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 16,910	\$ 26,312
Accounts payable	13,704	13,303
List brokerage trade accounts payable	8,721	12,745
Accrued payroll expenses	11,990	11,410
Accrued expenses	1,884	1,827
Income taxes payable		3,287
Deferred income taxes	7,476	515
Deferred revenues	15,399	13,821
	<u>76,084</u>	<u>83,220</u>
Long-term debt, net of current portion	136,477	164,116
Deferred income taxes	18,836	21,722
Other liabilities	4,554	6,000
Stockholders equity:		
Common stock, \$.0025 par value. Authorized 295,000,000 shares; 52,799,107 shares issued and 52,218,561 outstanding at September 30, 2003 and 51,869,816 shares issued and 51,111,014 outstanding at December 31, 2002	132	130
Paid-in capital	98,237	92,205
Retained earnings	47,449	32,237
Treasury stock, at cost, 580,546 shares held at September 30, 2003 and 758,802 held at December 31, 2002	(3,494)	(4,538)

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Notes receivable from officers	(337)	(834)
Accumulated other comprehensive loss	(2,185)	(872)
	<u> </u>	<u> </u>
Total stockholders' equity	139,802	118,328
	<u> </u>	<u> </u>
	\$ 375,753	\$ 393,386
	<u> </u>	<u> </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 September 30,		NINE MONTHS ENDED September 30,	
	2003	2002	2003	2002
	(UNAUDITED)		(UNAUDITED)	
Net sales	\$77,379	\$77,171	\$232,290	\$227,936
Costs and expenses:				
Database and production costs	21,416	20,618	64,556	63,191
Selling, general and administrative (excluding non-cash stock option compensation expense of \$76 and \$8 for the three months and \$145 and \$35 for the nine months ended September 30, 2003 and 2002, respectively)	36,827	34,711	103,825	98,558
Depreciation and amortization	7,006	6,805	21,214	21,058
Non-cash stock option compensation	76	8	145	35
Restructuring charges	645	804	1,630	1,616
Litigation settlement charge	1,667	110	1,667	417
Acquisition costs	—	2	54	175
Total operating costs and expenses	67,637	63,058	193,091	185,050
Operating income	9,742	14,113	39,199	42,886
Other income (expense):				
Investment income	394	35	1,222	133
Other charges	(2,240)	(115)	(6,385)	(5,355)
Interest expense	(2,243)	(3,404)	(9,500)	(12,562)
Income before income taxes	5,653	10,629	24,536	25,102
Income taxes	2,021	4,225	9,324	9,606
Net income	\$ 3,632	\$ 6,404	\$ 15,212	\$ 15,496
Basic earnings per share:	\$ 0.07	\$ 0.12	\$ 0.30	\$ 0.30
Diluted earnings per share:	\$ 0.07	\$ 0.12	\$ 0.30	\$ 0.30

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)

	NINE MONTHS ENDED	
	September 30,	
	2003	2002
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,212	\$ 15,496
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,214	21,058
Amortization of deferred financing costs	539	620
Deferred income taxes	4,304	(2,164)
Non-cash stock option compensation expense	145	35
Non-cash 401(k) contribution in common stock	1,028	649
Gain on sale of assets	(860)	
Non-cash impairment of assets		2,978
Non-cash other charges	2,482	1,264
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	6,727	3,020
List brokerage trade accounts receivable	4,014	(825)
Prepaid expenses and other assets	(5,185)	2,649
Deferred marketing costs	(1,853)	(429)
Accounts payable	(533)	3,117
List brokerage trade accounts payable	(4,179)	541
Income taxes receivable and payable, net	(4,726)	(1,480)
Accrued expenses and other liabilities	(785)	(10,900)
	37,544	35,629
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of other investments	1,628	
Purchase of other investments	(626)	(32)
Purchases of property and equipment	(4,657)	(2,453)
Acquisitions of businesses, net of cash acquired	(5,494)	(6,453)
Software and database development costs	(743)	(1,820)
	(9,892)	(10,758)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(137,041)	(27,233)
Proceeds of long-term debt	100,000	
Deferred financing costs paid	(141)	(1,030)
Proceeds for repayment of officer loan	496	
Proceeds from exercise of stock options	5,890	569
	(30,796)	(27,694)
Net decrease in cash and cash equivalents	(3,144)	(2,823)
Cash and cash equivalents, beginning	6,285	4,382

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Cash and cash equivalents, ending	\$ 3,141	\$ 1,559
	<u> </u>	<u> </u>
Supplemental cash flow information:		
Interest paid	\$ 8,390	\$ 9,884
	<u> </u>	<u> </u>
Income taxes paid	\$ 9,904	\$ 13,630
	<u> </u>	<u> </u>

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 consolidated 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 consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

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, 2002 included in the Company's 2002 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.

Reclassifications. In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections. SFAS No. 145, among other things, rescinds SFAS No. 4 which required all gains and losses from the extinguishments of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modification that have economic effect similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Upon adoption of the new accounting standard in 2003, the Company was required to reclassify the extraordinary item of \$1.8 million related to the extinguishment of debt as reported in the 2002 consolidated statement of operations. The reclassification increased other charges expense by \$2.9 million and decreased income tax expense by \$1.1 million.

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.

	Three Months Ended September 30, (In Thousands)		Nine Months Ended September 30, (In Thousands)	
	2003	2002	2003	2002
Weighted average number of shares used in basic EPS	51,676	50,991	51,351	50,935
Net additional common stock equivalent shares outstanding after assumed exercise of stock options	681		102	83
Weighted average number of shares outstanding used in diluted EPS	52,357	50,991	51,453	51,018

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.

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The large business segment principally engages in the selling of data processing services, licensed databases, database marketing solutions, e-mail 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

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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 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 business segments share the Company's property and equipment. 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 September 30, 2003				
	Small Business	Large Business	Corporate Activities	Consolidated Total
(In thousands)				
Net sales	\$37,902	\$39,477	\$	\$77,379
Non-cash stock compensation			(76)	(76)
Restructuring charges			(645)	(645)
Litigation settlement charges			(1,667)	(1,667)
Operating income (loss)	10,423	20,009	(20,690)	9,742
Investment income			394	394
Other charges			(2,240)	(2,240)
Interest expense			(2,243)	(2,243)
Income (loss) before income taxes	10,423	20,009	(24,779)	5,653

For The Three Months Ended September 30, 2002				
	Small Business	Large Business	Corporate Activities	Consolidated Total
(In thousands)				
Net sales	\$41,084	\$36,087	\$	\$77,171
Non-cash stock compensation			(8)	(8)
Restructuring charges			(804)	(804)
Litigation settlement charges			(110)	(110)
Acquisition costs			(2)	(2)
Operating income (loss)	15,585	18,571	(20,043)	14,113
Investment income			35	35
Other charges			(115)	(115)
Interest expense			(3,404)	(3,404)
Income (loss) before income taxes	15,585	18,571	(23,527)	10,629

For The Nine Months Ended September 30, 2003				
	Small Business	Large Business	Corporate Activities	Consolidated Total
(In thousands)				
Net sales	\$117,556	\$114,734	\$	\$232,290

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Non-cash stock compensation			(145)	(145)
Restructuring charges			(1,630)	(1,630)
Litigation settlement charges			(1,667)	(1,667)
Acquisition costs			(54)	(54)
Operating income (loss)	41,006	57,365	(59,172)	39,199
Investment income			1,222	1,222
Other charges			(6,385)	(6,385)
Interest expense			(9,500)	(9,500)
Income (loss) before income taxes	41,006	57,365	(73,835)	24,536

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	Small Business	Large Business	Corporate Activities	Consolidated Total
	(In thousands)			
Net sales	\$ 117,405	\$ 110,531	\$	\$ 227,936
Non-cash stock compensation			(35)	(35)
Restructuring charges			(1,616)	(1,616)
Litigation settlement charges			(417)	(417)
Acquisition costs			(175)	(175)
Operating income (loss)	46,066	58,615	(61,795)	42,886
Investment income			133	133
Other charges			(5,355)	(5,355)
Interest expense			(12,562)	(12,562)
Income (loss) before income taxes	46,066	58,615	(79,579)	25,102

4. COMPREHENSIVE INCOME (LOSS)

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

	For The Three Months Ended		For The Nine Months Ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
	(In thousands)		(In thousands)	
Net income	\$ 3,632	\$ 6,404	\$ 15,212	\$ 15,496
Other comprehensive income:				
Unrealized gain from investments:				
Unrealized gains (losses)	(57)	(10)	136	(66)
Related tax expense	22	4	(52)	25
Net	(35)	(6)	84	(41)
Interest rate swap agreement:				
Gains				850
Related tax expense				(323)
Net				527
Pension plan:				
Unrealized gains (losses)	(1,397)		(1,397)	
Total other comprehensive income	(1,432)	(6)	(1,313)	486
Comprehensive income	\$ 2,200	\$ 6,398	\$ 13,899	\$ 15,982

The components of accumulated other comprehensive income (loss) is as follows:

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	Unrealized Gains/(Losses) Pension plan	Foreign Currency Translation Adjustments	Unrealized Gains / (Losses) On Securities	Accumulated Other Comprehensive Income (Loss)
	(in thousands)			
Balance at September 30, 2003	\$(1,397)	\$ (672)	\$ (116)	\$(2,185)
Balance at December 31, 2002	\$	\$ (672)	\$ (200)	\$ (872)

5. ACQUISITIONS

Effective September 14, 2003, the Company purchased the assets of LTWC Corporation (Markado), a provider of email marketing services. Total consideration for the acquisition was cash of \$1.0 million. The purchase price for the acquisition has been preliminarily allocated to current assets of \$0.3 million, property and equipment of \$0.1 million and goodwill of \$0.6 million. The acquisition has been accounted for under the purchase method of accounting, and accordingly, the operating results of Markado have been included in the Company's financial statements since the date of acquisition.

Effective March 1, 2003, the Company acquired all issued and outstanding common stock of Yesmail, Inc., a provider of email acquisition and retention services. The acquisition has been accounted for under the purchase method of accounting, and accordingly,

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the operating results of Yesmail, Inc. have been included in the Company's financial statements since the date of acquisition. Total consideration for the acquisition was cash of \$5.0 million. The purchase price for the acquisition had been preliminarily allocated to current assets of \$3.1 million, property and equipment of \$1.4 million, current liabilities of \$3.7 million and goodwill of \$4.2 million. The transaction is subject to purchase price adjustment represented by an adjustment for finalized working capital and a two-year escrow for other contingent items specified within the merger agreement. During the second quarter of 2003, the Company recorded an adjustment for finalized working capital resulting in a reclassification of \$1.0 million from goodwill to current assets and \$0.2 million from goodwill to current liabilities. Intangibles recorded as part of the purchase as of September 30, 2003 total \$3.4 million.

Assuming Markado and Yesmail, Inc. had been acquired on January 1, 2002, included in the accompanying consolidated statements of operations, unaudited pro forma consolidated net sales, net income and net income per share would have been as follows:

	For the three months ended		For the nine months ended	
	September 30, 2003	September 30, 2002	September 30, 2003	September 30, 2002
(In thousands, except per share amounts) (unaudited)				
Net sales	\$ 77,856	\$ 81,351	\$ 236,132	\$ 241,815
Net income	\$ 3,685	\$ 3,729	\$ 13,303	\$ 3,022
Basic earnings per share	\$ 0.07	\$ 0.07	\$ 0.26	\$ 0.06
Diluted earnings per share	\$ 0.07	\$ 0.07	\$ 0.26	\$ 0.06

The pro forma information provided above does not purport to be indicative of the results of operations that would actually have resulted if the acquisitions were made as of those dates or of results that may occur in the future. Pro forma net income includes adjustments for amortization of intangible assets and income taxes.

6. NON-CASH STOCK COMPENSATION EXPENSE

At September 30, 2003, the Company has a nonqualified stock option plan. The Company applies the intrinsic value based method of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its stock option plan. No stock-based employee compensation cost is reflected in net income, as all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company's pro forma net income and earnings per share would have been as indicated below had the fair value of all option grants been charged to salaries, wages, and benefits in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*:

	Three months ended September 30,		Nine Months ended September 30,	
	2003	2002	2003	2002
Net income, as reported	\$ 3,632	\$ 6,404	\$ 15,212	\$ 15,496
Less: Total stock-based employee compensation expense determined under fair value based method, net of taxes	527	635	1,747	2,037
Net income, pro forma	\$ 3,105	\$ 5,769	\$ 13,465	\$ 13,459
Earnings per share:				
Basic as reported	\$.07	\$.12	\$.30	\$.30
Basic pro forma	\$.06	\$.11	\$.26	\$.26
Diluted as reported	\$.07	\$.12	\$.30	\$.30

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Diluted pro forma	█	█	█	█
	\$.06	\$.11	\$.26	\$.26
	█	█	█	█

The above pro forma results are not likely to be representative of the effects on reported net income for future years since options vest over several years and additional awards generally are made each year.

The fair value of the weighted average of option grants is estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2003 and 2002: expected volatility of 78.89% (2003) and 80.73% (2002), risk free interest rate of 4.67% (2003) and 4.84% (2002) based on the U.S. Treasury strip yield at the date of grant and expected lives of 5 years.

Compensation cost for stock options and warrants granted to non-employees and vendors is measured based upon the fair value of the stock option or warrant granted. When the performance commitment of the non-employee or vendor is not complete as of the

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grant date, the Company estimates the total compensation cost using a fair value method at the end of each period. Generally, the final measurement of compensation cost occurs when the non-employee or vendors related performance commitment is complete. Changes, either increases or decreases, in the estimated fair value of the options between the date of the grant and the final vesting of the options result in a change in the measure of compensation cost for the stock options or warrants. Compensation cost is recognized as expense over the periods in which the benefit is received.

During the second quarter of 2002, the Company granted non-qualified stock options to a non-employee consultant of the Company in connection with a consulting agreement executed by the Company. The options vest evenly over four years and have a five-year life. The fair value of the option was estimated, as of the grant date, using the Black-Scholes option pricing model with the following assumptions: no dividend yield for any year, expected volatility of 78.89%, risk free interest rate of 4.67% and an expected life of 5 years. As such, the Company has recorded a non-cash charge of \$145 thousand, related to stock options granted to the consultant during the nine months ended September 30, 2003. The charges were recorded as an addition to paid-in-capital. The consulting agreement commits the Company to make cash payments of \$675 thousand, \$775 thousand and \$200 thousand in 2003, 2004 and 2005 to the consultant for services rendered. Expense recorded for the three months and nine months ended September 30, 2003 for this consulting agreement was \$175 thousand and \$550 thousand, respectively and \$292 thousand for the three months and nine months ended September 30, 2002.

7. RESTRUCTURING CHARGES

During the three and nine months ended September 30, 2003, the Company recorded restructuring charges due to workforce reductions of \$645 thousand and \$1.6 million, respectively. The charges included involuntary employee separation costs for 64 employees in administration, order production and data processing support staff. As of September 30, 2003, an accrual of \$410 thousand was included in the accompanying consolidated balance sheet for severance costs remaining to be paid.

During the three and nine months ended September 30, 2002, the Company recorded restructuring charges due to workforce reductions of \$804 thousand and \$1.6 million, respectively as a part of the Company's overall strategy to reduce costs and continue commitment to its core businesses. The workforce reduction charges included involuntary employee separation costs for 73 employees in administration, sales support and marketing functions.

8. ACQUISITION COSTS

The Company recorded costs of \$54 thousand and \$175 thousand during the nine months ended September 30, 2003 and 2002, respectively, for general and administrative expenses incurred in connection with the integration of acquired companies. These costs are not direct costs of acquisition and therefore cannot be capitalized as part of the purchase price.

9. OTHER CHARGES

On May 14, 2002, a principal of one of the acquisitions made by the Company in 1996 was awarded \$1.7 million by an arbitrator for settlement of a dispute regarding exercise of stock options issued by the Company. Although the Company has appealed the arbitrator's decision, the Company's management, under advice from outside counsel, determined during the third quarter of 2003 that the Company was not likely to be successful in the appeal. Consequently, the Company recorded a litigation charge of \$1.7 million during the three months ended September 30, 2003, for the arbitrator's award.

During the nine months ended September 30, 2003, the Company purchased \$67 million of its 9 1/2% Senior Subordinated Notes of which \$11.5 million of the notes were held by the Company's Chief Executive Officer. All purchases of 9 1/2% Senior Subordinated Notes occurred at the same price and under the same terms. As part of these purchases, the Company recorded charges of \$1.6 million for related net non-amortized debt issue costs and \$3.1 million for amounts paid in excess of carrying value of the debt.

On May 27, 2003 the Company amended and restated the Senior Secured Credit Facility administered by Bank of America, N.A. in order to take advantage of lower interest rates and make significant redemptions of the 9 1/2% Senior Subordinated Notes. The total credit available was increased from \$115 million to \$145 million. The existing term loans A and B were combined into a single term loan of \$100 million maturing April 30, 2007. In addition, the revolving credit facility of \$18 million was increased to \$45 million and is due May 27, 2006, reducing to \$40 million on April 1, 2004 and reducing to \$35 million on April 1, 2005. The Company has expensed \$0.8 million in non-amortized costs associated with the issue of the previous

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facility and \$0.8 million in bank fees associated with the new facility, which are classified as other charges in the statement of operations.

During the nine months ended September 30, 2002, the Company wrote-off deferred financing costs of \$2.9 million in connection with the refinancing of its Senior Secured Credit Facility. Additionally, the refinancing resulted in a loss of \$1.2 million for the reclassification of an interest rate swap agreement from Other Comprehensive Income (Loss) included in the Company's consolidated balance sheet. The Company also recorded a loss of \$1.1 million for an other-than-temporary decline in the value of a non-marketable equity investment.

10. RELATED PARTY TRANSACTIONS

During 2003, the Company purchased the rights to a skybox at a local university for \$617 thousand from Annapurna Corporation, which is 100% owned by Mr. Gupta, the Company's Chief Executive Officer. The cost covers the remaining 21 years of the lease and has been recorded in other assets on the accompanying consolidated balance sheet. Expense recognized for the three and nine months ended September 30, 2003 was \$7 thousand and \$10 thousand, respectively.

During 2003, the Company purchased \$11.5 million of its 9 1/2% Senior Subordinated Notes from Mr. Gupta at the same terms and prices offered to unrelated parties.

Mr. Gupta was eligible for a cash bonus in 2002 based on Company performance. The criteria for Mr. Gupta's bonus specifies that he would receive 10% of the Company's adjusted EBITDA in excess of \$80 million. In January 2002, the Company paid an advance of \$1.5 million to Mr. Gupta (based on the Company's 2001 performance) to be off set against any 2002 bonus payable to Mr. Gupta pursuant to his bonus program. The advance was to be applied to part or his entire 2002 bonus or paid back by Mr. Gupta by January 2004. In May 2002, Mr. Gupta paid back \$0.6 million of the original advance, leaving an advance balance of \$0.9 million. Mr. Gupta's 2002 bonus has been determined to be \$0.4 million. The remaining balance of \$0.5 million is classified as Officer Note Receivable in the accompanying Balance Sheet.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following:

	September 30, 2003	December 31, 2002
	(In thousands)	
Goodwill	\$ 273,560	\$ 262,417
Non-compete agreements	13,534	13,534
Core technology	4,800	4,800
Customer base	8,372	8,372
Trade names	15,802	15,802
Purchased data processing software	73,478	73,478
Acquired database costs	19,000	19,000
Perpetual software license agreement	8,000	8,000
Software development costs, net	2,379	5,565
Deferred financing costs	8,207	8,845
	<u>427,132</u>	<u>419,813</u>
Less accumulated amortization	<u>163,150</u>	<u>146,567</u>
	<u>\$ 263,982</u>	<u>\$ 273,246</u>

12. CONTINGENCIES

The Company and its subsidiaries are involved in legal proceedings, claims and litigation arising in the ordinary course of business. Management believes that any resulting liability should not materially affect the Company's financial position, results of operations, or cash flows.

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ITEM 2.

infoUSA INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

GENERAL

The Company is a leading provider of business and consumer information, data processing and database marketing services. The Company's key assets include proprietary databases of 14 million businesses and 220 million consumers in the United States and Canada. We believe our proprietary content is the most comprehensive and accurate data available. We leverage these key assets by selling through multiple distribution channels to over 4 million customers that include small and medium-size businesses, Fortune 1000 companies, consumers, and Internet users.

The Company has supplemented its internal growth through strategic acquisitions and has completed over 20 acquisitions since mid 1996. The Company has increased its presence in the consumer marketing information industry, greatly increased its ability to provide data processing solutions, increased its presence in list management and list brokerage services and broadened its offerings for e-mail and business marketing information. During 2002 and 2003, the Company completed the integration of Polk City Directories and enhanced its presence in e-mail marketing, e-mail customer retention and e-mail customer acquisition services with the purchase of DoubleClick's email deployment business, ClickAction, Yesmail and Markado. The Company also continued to consolidate the printed and online directory industry with its acquisition of Hill-Donnelly and City Publishing directory companies.

Since 1996, the Company has systematically integrated the operations of the acquired companies into existing operations of the Company. In most cases, the results of operations for these acquired activities are no longer separately accounted for from existing activities. The Company cannot report the results of the operations of acquired companies upon completion of the integration as the results are commingled with existing results. Additionally, upon integration of the acquired operations, the Company frequently combines acquired products or features with existing products, and experiences significant cross selling of products between business units, including sales of acquired products by existing business units and sales by acquired business units of existing products. Due to recent and potential future acquisitions, future results of operations will not be comparable to historical data.

This discussion and analysis contains forward-looking statements, including without limitation statements in the discussion of comparative results of operations, accounting standards and liquidity and capital resources, within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933, which are subject to the safe harbor created by those sections. The Company's actual future results could differ materially from those projected in the forward-looking statements. Some factors which could cause future actual results to differ materially from the company's recent results or those projected in the forward-looking statements are described in Factors that May Affect Operating Results below. The Company assumes no obligation to update the forward-looking statement or such factors.

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RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, selected financial information and other data. The amounts and related percentages may not be fully comparable due to acquisitions.

	THREE MONTHS ENDED September 30, 2003	THREE MONTHS ENDED September 30, 2002	NINE MONTHS ENDED September 30, 2003	NINE MONTHS ENDED September 30, 2002
CONSOLIDATED STATEMENT OF OPERATIONS				
DATA:				
Net sales	100%	100%	100%	100%
Costs and expenses:				
Database and production costs	28	27	28	28
Selling, general and administrative	47	45	44	43
Depreciation and amortization	9	9	9	9
Non-cash stock compensation expense				
Restructuring charges	1	1	1	1
Litigation settlement charge	2		1	
Acquisition costs				
Total costs and expenses	87	82	83	81
Operating income	13	18	17	19
Other expense, net	(5)	(5)	(6)	(8)
Income before income taxes	7	13	11	11
Income taxes	2	5	4	5
Net income	5%	8%	7%	6%
OTHER DATA:				
SALES BY SEGMENT: (in thousands)				
Small business	\$ 37,902	\$41,084	\$ 117,556	\$ 117,405
Large business	39,477	36,087	114,734	110,531
Total	\$ 77,379	\$77,171	\$232,290	\$227,936
SALES BY SEGMENT AS A PERCENTAGE OF NET SALES:				
Small business	49%	53%	51%	52%
Large business	51	47	49	48
Total	100%	100%	100%	100%
Amortization expense of intangible assets (1)	\$ 3,310	\$ 3,325	\$ 9,960	\$ 9,986
Earnings before, interest, taxes, depreciation and amortization, (EBITDA), as adjusted (2)	\$ 16,824	\$20,926	\$ 60,558	\$ 63,979
EBITDA, as adjusted, as a percentage of net sales	22%	27%	26%	28%

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Cash Flow Data:	(in thousands)	
Net cash from operating activities	\$ 37,544	\$ 35,629
Net cash used in investing activities	\$ (9,892)	\$ (10,758)
Net cash used in financing activities	\$ (30,796)	\$ (27,694)

(1) This represents amortization expense recorded by the Company on amortizable intangible assets recorded as part of the acquisition of other companies, and excludes amortization related to deferred financing costs, software development costs and other intangible assets not recorded as part of an acquisition of another company.

(2) EBITDA, as adjusted, is defined as net income adjusted to exclude depreciation and amortization, non-cash impairment of assets, non-operating other charges, income taxes, interest expense, investment income and non-cash stock compensation expenses. EBITDA is presented because it is a widely accepted measure of performance that eliminates the effects of a variety of methods used for deprecation and amortization that have changed over time. However, EBITDA, does not purport to represent cash provided by operating activities as reflected in the Company's consolidated statements of cash flows, is not a measure of financial performance under generally accepted accounting principles (GAAP) and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Also, the measure of EBITDA, may not be comparable to similar measures reported by other companies.

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The following provides a reconciliation of net income to EBITDA, as adjusted:

	Three months ended September 30,		Nine months ended September 30,	
	2003	2002	2003	2002
Net income	\$ 3,632	\$ 6,404	\$ 15,212	\$ 15,496
Other charges	2,240	115	6,385	5,355
Investment income	(394)	(35)	(1,222)	(133)
Interest expense	2,243	3,404	9,500	12,562
Income taxes	2,021	4,225	9,324	9,606
Depreciation and amortization	7,006	6,805	21,214	21,058
Non-cash stock compensation	76	8	145	35
EBITDA, as adjusted	\$ 16,824	\$ 20,926	\$ 60,558	\$ 63,979

Net sales

Net sales of the Company for the quarter ended September 30, 2003 were \$77.4 million compared to \$77.2 million for the same period of 2002, an increase of less than 1%. Net sales of the Company for the nine months ended September 30, 2003 were \$232.3 million compared to \$227.9 million for the same period of 2002, an increase of 2%.

Net sales of the small business segment for the quarter ended September 30, 2003 were \$37.9 million, compared to \$41.1 million for the same period of 2002, a decrease of \$3.2 million or 8%. The decrease was principally due to a decline in net sales for Polk City Directories, a subsidiary of the Company. Net sales of the small business segment for the nine months ended September 30, 2003 were \$117.6 million, compared to \$117.4 million for the same period of 2002, an increase of less than 1%. The small business segment principally engages in the selling of sales lead generation and consumer DVD products to small to medium sized companies, small office and home office businesses and individual consumers. This segment also includes the sale of content via the Internet.

Net sales of the large business segment for the quarter ended September 30, 2003 were \$39.5 million compared to \$36.1 million for the same period of 2002, an increase of 9%. Net sales of the large business segment for the nine months ended September 30, 2003 were \$114.7 million compared to \$110.5 million for the same period of 2002, an increase of 4%. The increase was principally due to the acquisition of ClickAction in December 2002 and Yesmail in March 2003. The large business segment principally engages in the selling of data processing services, licensed databases, database marketing solutions, e-mail marketing solutions and list brokerage and list management services to large companies. This segment includes the licensing of databases for Internet directory assistance services.

Database and production costs

Database and production costs for the quarter ended September 30, 2003 were \$21.4 million, or 28% of net sales, compared to \$20.6 million, or 27% of net sales for the same period of 2002. Database and production costs for the nine months ended September 30, 2003 were \$64.6 million, or 28% of net sales, compared to \$63.2 million, or 28% of net sales for the same period of 2002.

Selling, general and administrative expenses

Selling, general and administrative expenses for the quarter ended September 30, 2003 were \$36.8 million, or 47% of net sales, compared to \$34.7 million, or 45% of net sales for the same period of 2002. Selling, general and administrative expenses for the nine months ended September 30, 2003 were \$103.8 million, or 44% of net sales, compared to \$98.6 million, or 43% of net sales for the same period of 2002. The increase in selling, general and administrative expenses principally relates to the Company's planned increase in direct marketing costs and the addition of sales staff, beginning during the quarter ended September 30, 2003. Additionally, the increase is partially due to the acquisition of various companies during 2002 and 2003, including Hill-Donnelly, City Publishing, and the e-mail list business of DoubleClick, ClickAction and Yesmail. These acquired companies historically had higher operating sales and marketing cost structures than the Company's existing businesses. The increase in selling, general and administrative expenses was partially offset by a decrease in bad debt expense totaling \$0.6 million during the nine months ended September 30, 2003. The decrease in bad debt expense corresponds with the decrease in the Company's total trade accounts receivable outstanding and days sales outstanding (DSO) ratio.

Depreciation and amortization expenses

Depreciation and amortization expenses for the quarter ended September 30, 2003 were \$7.0 million, or 9% of net sales, compared to \$6.8 million, or 9% of net sales for the same period of 2002. Depreciation and amortization expenses for the nine months ended September 30, 2003 were \$21.2 million, or 9% of net sales, compared to \$21.1 million, or 9% of net sales for the same period of 2002.

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The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets as of January 1, 2002. SFAS No. 142 requires the Company to complete an annual impairment test on goodwill and other intangible assets with an indefinite life rather than record amortization expense on those assets. We currently do not expect to record an impairment charge, however, there can be no assurance that at the time a review is completed a material impairment charge will not be recorded.

Restructuring costs

During the quarter ended September 30, 2003, the Company recorded restructuring charges due to workforce reductions of \$0.6 million as part of the Company's continuing strategy to reduce costs and further consolidate data processing operations. The workforce reduction charges included involuntary employee separation costs for 64 employees. During the nine months ended September 30, 2003, the Company recorded restructuring charges due to workforce reductions of \$1.6 million for the involuntary employee separation costs for 179 employees.

During the three and nine months ended September 30, 2002, the Company recorded restructuring charges due to workforce reductions of \$0.8 million and \$1.6 million, respectively, as a part of the Company's continuing strategy to reduce costs and focus on core operations. The workforce reduction charges included involuntary employee separation costs for 73 employees for the nine months ended September 30, 2002.

Acquisition costs

The Company recorded costs of \$54 thousand and \$175 thousand during the nine months ended September 30, 2003 and 2002, respectively, for general and administrative expenses incurred in connection with the integration of acquired companies. These costs are not direct costs of acquisition and therefore cannot be capitalized as part of the purchase price.

Operating income

Including the factors previously described, the Company had operating income of \$9.7 million, or 13% of net sales for the quarter ended September 30, 2003, compared to operating income of \$14.1 million, or 18% of net sales for the same period in 2002. The Company had operating income of \$39.2 million, or 17% of net sales for the nine months ended September 30, 2003, compared to operating income of \$42.9 million, or 19% of net sales for the same period in 2002. The decrease in operating income as a percentage of net sales is a result of the following items: 1) the Company's planned increase in direct marketing costs and the addition of sales staff, beginning during the quarter ended September 30, 2003; 2) a decline in net sales for Polk City Directories during the quarter ended September 30, 2003; 3) a litigation settlement charge of \$1.7 million recorded during the quarter ended September 30, 2003; and 4) increased operating expenses represented as percentage of net sales associated with companies acquired during 2002 and 2003 including City Publishing, Hill-Donnelly, ClickAction and Yesmail.

Operating income for the small business segment for the quarter ended September 30, 2003 was \$10.4 million, or 27% of net sales, as compared to \$15.6 million, or 38% of net sales for the same period in 2002. Operating income for the small business segment for the nine months ended September 30, 2003 was \$41.0 million, or 35% of net sales, as compared to \$46.1 million, or 39% of net sales for the same period in 2002. The decrease in operating income as a percentage of net sales principally relates to the Company's planned increase in direct marketing costs and the addition of sales staff, beginning during the quarter ended September 30, 2003. Additionally, the decrease is partially due to a decline in net sales for Polk City Directories and increased operating expenses represented as a percentage of net sales associated with companies acquired during 2002 and 2003 including City Publishing and Hill-Donnelly.

Operating income for the large business segment for the quarter ended September 30, 2003 was \$20.0 million, or 51% of net sales, as compared to \$18.6 million, or 51% of net sales for the same period in 2002. Operating income for the large business segment for the nine months ended September 30, 2003 was \$57.4 million, or 50% of net sales, as compared to \$58.6 million, or 53% of net sales for the same period in 2002. The decrease in operating income as a percentage of net sales is principally due to increased operating expenses represented as a percentage of net sales associated with companies acquired during 2002 and 2003 including ClickAction and Yesmail.

Other income (expense), net

Other income (expense) net, was \$(4.1) million, or (5)% of net sales, and \$(3.5) million, or (5)% of net sales, for the quarters ended September 30, 2003 and 2002, respectively. Other income (expense) net, was \$(14.7) million, or (6)% of net sales, and \$(17.8) million, or (8)% of net sales, for the nine months ended September 30, 2003 and 2002, respectively. Other income (expense) is comprised of interest expense, investment income and other income or expense items, which do not represent components of operating income (expense) of the Company.

Interest expense was \$2.2 million and \$3.4 million for the quarters ended September 30, 2003 and 2002, respectively. Interest

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expense was \$9.5 million and \$12.6 million for the nine months ended September 30, 2003 and 2002, respectively. Interest expense has decreased due to the continued reduction in the amount of total debt outstanding and favorable interest rates. Investment income was \$394 thousand and \$35 thousand for the quarters ended September 30, 2003 and 2002. Investment income was \$1.2 million and \$133 thousand for the nine months ended September 30, 2003 and 2002.

During 1999 in conjunction with the acquisition of Donnelley, the Company negotiated a credit arrangement (Senior Debt Credit Facility). According to the terms of the Senior Debt Credit Facility, the Company entered into an interest rate swap agreement with Union Bank of California, to fix the rate on \$60.5 million of the debt at an interest rate of 6.385% for the term of 3 years. On March 6, 2002, the Company refinanced the Senior Debt Credit facility with Bank of America, N.A. As a result of the refinancing, the Company recorded a charge of \$1.2 million (classified with other non-operating charges) for amounts reported in Other Comprehensive Income related to the fair value of the interest rate swap agreement. Also during the quarter ended September 30, 2002, the Company wrote-off deferred financing costs of \$2.9 million in connection with the refinancing of its Senior Debt Credit Facility as described above. On May 27, 2003 the Bank of America Senior Secured Credit Facility was amended and restated to increase the credit available from \$115 million to \$145 million to facilitate the partial redemption of the Company's 9 1/2% Senior Subordinated Notes. As a result of the refinancing, the Company expensed \$0.8 million in non-amortized deferred financing costs associated with the issue of the previous facility and \$0.7 million in bank fees associated with the new facility. During the nine months ended September 30, 2003, the Company purchased \$67 million of its 9 1/2% Senior Subordinated Notes. As part of these purchases, the Company recorded charges of \$1.6 million for related net non-amortized debt issue costs and \$3.1 million for amounts paid in excess of carrying value of the debt.

Income taxes

A provision for income taxes of \$2.0 million and \$4.2 million was recorded for the quarters ended September 30, 2003 and 2002, respectively. A provision for income taxes of \$9.3 million and \$9.6 million was recorded for the nine months ended September 30, 2003 and 2002, respectively.

EBITDA

The Company's EBITDA, as adjusted was \$16.8 million, or 22% of net sales and \$20.9 million, or 27% of net sales for the quarters ended September 30, 2003 and 2002, respectively. EBITDA as adjusted was \$60.6 million, or 26% of net sales and \$64.0 million, or 28% of net sales for the nine months ended September 30, 2003 and 2002, respectively. EBITDA, as adjusted, is defined as net income adjusted to exclude depreciation and amortization, non-cash impairment of assets, non-operating other charges, income taxes, interest expense, investment income and non-cash stock compensation expenses.

LIQUIDITY AND CAPITAL RESOURCES**Consolidated Statements of Cash Flows Information:**

As of September 30, 2003, the Company's principal sources of liquidity included cash and cash equivalents of \$3.1 million, and \$25.5 million available under the revolving credit facility described above. As of September 30, 2003, the Company had a working capital deficit of \$12.8 million.

Net cash provided by operating activities during the nine months ended September 30, 2003, totaled \$37.5 million compared to \$35.6 million during the same period of 2002.

During the nine months ended September 30, 2003, the Company spent \$4.7 million for additions of property and equipment, \$0.7 million related to software and database development costs, \$5.5 million for the acquisition of businesses and a net amount of \$37.0 million on the repayment of long-term debt.

The amended Senior Secured Credit Facility provides for a term loan of \$100 million due April 30, 2007 (\$92.5 million outstanding at September 30, 2003) and \$45.0 million (\$19.5 million outstanding at September 30, 2003) under a revolving credit facility due May 2006, reduces to \$40 million on April 1, 2004 and reducing to \$35 million on April 1, 2005.

The Senior Secured Credit Facility provides for grid-based interest pricing based upon the Company's consolidated leverage ratio and ranges from base rate + 1.00% to 2.00% for base rate loans and from LIBOR + 2.00% to 3.00% for LIBOR loans for use of the revolving credit facility for loans of up to \$45.0 million. The term loan interest rate is base rate +3.00% or LIBOR + 4.00%.

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Substantially all of the assets of the Company are pledged as security under the terms of the credit facility. As of December 31, 2002, term loan A had a balance of \$34.3 million, with an interest rate of 4.30% and term loan B had a balance of \$40.8 million, with an interest rate of 4.80% under the previous credit agreement. At September 30, 2003, the term loan had a balance of \$92.5 million with an interest rate of 5.1% and \$25.5 million was available under the revolving credit facility. Additionally, the Company is required to pay a commitment fee of between 0.35% and 0.50%, dependent on the consolidated leverage ratio, on the average unused amount of the revolving credit facility.

The Company is subject to certain financial covenants in its various credit facilities, including total funded debt leverage ratio, senior debt leverage ratio, fixed charge coverage ratio, net worth and minimum consolidated EBITDA. The Company was in compliance with all restrictive covenants of the Company's various credit facilities at September 30, 2003.

The Company believes that its existing sources of liquidity and cash generated from operations will satisfy the Company's projected working capital, debt repayments and other cash requirements for at least the next 12 months. Acquisitions of other technologies, products or companies, or internal product development efforts may require the Company to obtain additional equity or debt financing, which may not be available or may be dilutive.

CONSOLIDATED BALANCE SHEET INFORMATION:

Trade accounts receivable decreased from \$40.6 million at September 30, 2002 to \$34.2 million at September 30, 2003, with related days sales outstanding (DSO) decreasing to 40 days for the quarter ended September 30, 2003 from 47 days for the same period in 2002. The allowance for bad debts has been reduced from 9% of trade accounts receivable to 8% of trade accounts receivable during the quarter ended September 30, 2003 primarily due to the reduction in DSO and better credit and collection techniques.

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2001, the FASB released SFAS No. 143, *Accounting for Asset Retirement Obligations*, which addresses financial accounting and reporting for obligations associated with retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 requires recognition of asset retirement obligations as a liability rather than a contra-asset. SFAS No. 143 is effective for the Company's fiscal year ending December 31, 2003. SFAS No. 143 did not impact the Company's consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections*. SFAS No. 145, among other things, rescinds SFAS No. 4 which required all gains and losses from the extinguishments of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modification that have economic effect similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Upon adoption of the new accounting standard in 2003, the Company reclassified the extraordinary item of \$1.8 million related to the extinguishment of debt as reported in the 2002 consolidated statement of operations. The reclassification increased other non-operating expense by \$2.9 million and decreased income tax expense by \$1.1 million.

In June 2002, the FASB released SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which addresses accounting and reporting for costs associated with exit or disposal activities, and nullifies EITF 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. SFAS No. 146 addresses involuntary one-time employee termination benefits, cost to terminate a contract that is not a capital lease, and other associated exit costs. Existing accounting guidelines require companies to recognize a liability when management commits itself or announces plans to exit or dispose of an activity. SFAS No. 146 will prohibit companies from recognizing an exit or disposal liability that cannot be measured at fair value. The Company has applied the provisions of SFAS No. 146 for liability recognition for disposal activities that have been initiated after December 31, 2002.

In May 2003, the Emerging Issues Task Force of the FASB issued EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. EITF 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF 00-21 has not had a material impact on the Company's consolidated financial statements.

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In November 2002, the FASB issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, an interpretation of SFAS No. 5, 57 and 107 and rescission of FASB Interpretation No. 34. This interpretation requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also specifies the requirements for liability recognition (at fair value) for obligations undertaken in issuing the guarantee. The disclosure requirements are effective for interim and annual financial statements ending after December 15, 2002, (December 31, 2002 financial statements for calendar year companies). The initial recognition and measurement provisions are effective for all guarantees within the scope of Interpretation 45 issued or modified after December 31, 2002. Interpretation No. 45 does not have a material impact on the Company's consolidated financial statements.

In April 2003, the Financial Accounting Standards Board (FASB) issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As of September 30, 2003, management believes that SFAS No. 149 does not have a significant effect on the financial position, results of operations, and cash flows of the Company.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This statement requires that an issuer classify a financial instrument that is within its scope as a liability. The provisions of this statement are effective for financial instruments entered into or modified after May 31, 2003. As of September 30, 2003, management believes that SFAS No. 150 has no significant effect on the financial position, results of operations, and cash flows of the Company.

In January 2003, the FASB issued FASB interpretation No. 46, *Consolidation of Variable Interest Entities*. FIN no. 46 address consolidation by business enterprises of certain variable interest entities. The provisions of FIN No. 46 are effective immediately for variable interest entities created after January 31, 2003 and for variable interest entities in which an enterprise obtains an interest after that date. The provisions are effective in the first fiscal year of interim period beginning after December 15, 2003, for variable interest entities in which an enterprise hold a variable interest that it acquired before February 1, 2003. The Company does not believe FIN No. 46 will have a material impact on the financial position, results of operations, and cash flows of the Company.

FACTORS THAT MAY AFFECT OPERATING RESULTS

Our Internet strategy is subject to review and revision.

Our Internet strategy is to leverage our proprietary content into multiple vertical market applications and provide marketing solutions for electronic commerce applications. The strategy we introduced in fiscal 2000 of being an incubator of Internet database companies has been revised to a strategy of developing more efficient and profitable applications of our content through the Internet. We cannot guarantee that our customers will choose to have our products and services delivered to them over the Internet. If we are successful in developing Internet applications, we may face strong competition from current and potential competitors, including other Internet companies and other providers of business and consumer databases. We will review our Internet strategy from time to time and may continue to revise it.

Our markets are highly competitive and many of our competitors have greater resources than we do.

The business and consumer marketing information industry in which we operate is highly competitive. Intense competition could harm us by causing, among other things, price reductions, reduced gross margins, and loss of market share. Our competition includes:

In consumer sales lead generation products, Acxiom, Experian (a subsidiary of Great Universal Stores, P.L.C. (GUS)), and Equifax, both directly and through reseller networks.

In data processing services, Acxiom, Experian, Direct Marketing Technologies (a subsidiary of GUS), and Harte-Hanks Communications, Inc.

In business sales lead generation products, Experian and Dun's Marketing Services (DMS), a division of Dun & Bradstreet. DMS, which relies upon information compiled from Dun & Bradstreet's credit database, tends to focus on marketing to large companies.

In business directory publishing, from Regional Bell Operating Companies and many smaller, regional directory publishers.

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In consumer products, certain smaller producers of CD-Rom products.

Technologies which companies may install and implement in-house as part of their internal IS functions, instead of purchasing or outsourcing such functions.

In addition, we may face competition from new entrants to the business and consumer marketing information industry as a result of the rapid expansion of the Internet, which creates a substantial new channel for distributing business information to the market. Many of our competitors have longer operating histories, better name recognition and greater financial resources than we do, which may enable them to implement their business strategies more readily than we can.

We are highly leveraged. If we are unable to service our debt as it becomes due, our business would be harmed.

As of September 30, 2003, we had total indebtedness of approximately \$153.4 million, including \$30.0 million of Notes under an indenture (the Indenture) and \$112 million under a \$145 million Senior Secured Credit Agreement. Substantially all of our assets are pledged as security under the terms of the Senior Secured Credit Agreement. The indebtedness under the Senior Secured Credit Agreement was refinanced March 6, 2002 (amended and restated May 27, 2003) and originally incurred in connection with our acquisition of Donnelley Marketing in 1999. Our ability to pay principal and interest on the Notes issued under the Indenture and the indebtedness under the Senior Secured Credit Agreement and to satisfy our other debt obligations will depend upon our future operating performance. Our performance will be affected by prevailing economic conditions and financial, business and other factors. Certain of these factors are beyond our control. The future availability of revolving credit under the Senior Secured Credit Agreement will depend on, among other things, our ability to meet certain specified financial ratios and maintenance tests. We expect that our operating cash flow should be sufficient to meet our operating expenses, to make necessary capital expenditures and to service our debt requirements as they become due. If we are unable to service our indebtedness, however, we will be forced to take actions such as reducing or delaying acquisitions and/or capital expenditures, selling assets, restructuring or refinancing our indebtedness (including the Notes issued under the Indenture and the Senior Secured Credit Agreement) or seeking additional equity capital. We may not be able to implement any such measures or obtain additional financing.

The terms of our current indebtedness restrict our ability to take certain actions that fit our business strategy.

Our existing credit facilities contain certain covenants which restrict our ability to:

Incur additional indebtedness;

Pay dividends and make certain other similar payments;

Guarantee indebtedness of others;

Enter into certain transactions with affiliates;

Consume certain asset sales, certain mergers and consolidations, sales or other dispositions of all or substantially all of our assets

Acquire other companies; and

Obtain dividends or certain other payments from our subsidiaries.

These restrictions may impair our ability to take certain actions that fit our business strategy. A breach of any of these covenants could result in an event of default under the terms of our existing credit facilities. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If the payment of any such indebtedness is accelerated, our assets may not be sufficient to repay in full the indebtedness under our credit facilities and our other indebtedness. Moreover, if we were unable to repay amounts owed to the lenders under our credit facilities, the lenders could foreclose on our assets that secure the indebtedness.

Under the terms of our current indebtedness, the occurrence of a change of control of infoUSA could have serious adverse financial consequences to us.

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If a change of control of *infoUSA* were to occur, we would in certain circumstances be required to make an offer to purchase all outstanding Notes under the Indenture at a purchase price equal to 101% of the principal amount of the Notes, together with accrued and unpaid interest. There can be no guarantee that, if this were to happen, we would have sufficient funds to purchase the Notes. In addition, a change of control and any repurchase of the Notes upon a change of control may constitute an event of default under our other current or future credit facilities. In that event, our obligations under such credit facilities could be declared due and payable by the lenders, and the lenders may also have the right to be paid for all outstanding obligations under such credit facilities before we repurchase any of the Notes.

Fluctuations in our operating results may result in decreases in the market price of our common stock.

Our operating results may fluctuate on a quarterly and annual basis. Our expense levels are relatively fixed and are based, in part, on our expectations as to future revenues. As a result, unexpected changes in revenue levels may have a disproportionate effect on operating performance in any given period. In some period or periods our operating results may be below the expectations of public market analysts and investors. Our failure to meet analyst or investor expectations could result in a decrease in the market price of our common stock.

If we do not adapt our products and services to respond to changes in technology, they could become obsolete.

We provide marketing information and services to our customers in a variety of formats, including printed formats, electronic formats such as CD-Rom and DVD, and over the Internet. Advances in information technology may result in changing customer preferences for products and product delivery formats. If we do not successfully adapt our products and services to take advantage of changes in technology and customer preferences, our business, financial condition and results of operations would be adversely affected.

We have adopted an Internet strategy because we believe that the Internet represents an important and rapidly evolving market for marketing information products and services. Our business, financial condition and results of operations would be adversely affected if we:

Fail to develop products and services that are well suited to the Internet market;

Experience difficulties that delay or prevent the successful development, introduction and marketing of these products and services; or

Fail to achieve sufficient traffic to our Internet sites to generate significant revenues, or to successfully implement electronic commerce operations.

Changes in laws and regulations relating to data privacy could adversely affect our business.

We engage in direct marketing, as do many of our customers. Certain data and services provided by us are subject to regulation by federal, state and local authorities in the United States as well as those in Canada and the United Kingdom. In addition, growing concerns about individual privacy and the collection, distribution and use of information about individuals have led to self-regulation of such practices by the direct marketing industry through guidelines suggested by the Direct Marketing Association and to increased federal and state regulation. There is increasing awareness and concern among the general public regarding marketing and privacy concerns, particularly as it relates to the Internet. This concern is likely to result in new laws and regulations. Compliance with existing federal, state and local laws and regulations and industry self-regulation has not to date seriously affected our business, financial condition or results of operations. Nonetheless, federal, state and local laws and regulations designed to protect the public from the misuse of personal information in the marketplace and adverse publicity or potential litigation concerning the commercial use of such information may increasingly affect our operations. This could result in substantial regulatory compliance or litigation expense or a loss of revenue.

Our business would be harmed if we do not successfully integrate future acquisitions.

Our business strategy includes continued growth through acquisitions of complementary products, technologies or businesses. We have made over 20 acquisitions since mid-1996 and completed the integration of these acquisitions into our existing business. We continue to evaluate strategic opportunities available to us and intend to pursue opportunities that we believe fit our business strategy.

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Acquisitions of companies, products or technologies may result in the diversion of management's time and attention from day-to-day operations of our business and may entail numerous other risks, including difficulties in assimilating and integrating acquired operations, databases, products, corporate cultures and personnel, potential loss of key employees of acquired businesses, difficulties in applying our internal controls to acquired businesses, and particular problems, liabilities or contingencies related to the businesses being acquired. To the extent our efforts to integrate future acquisitions fail, our business, financial condition and results of operations would be adversely affected.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to material future earnings or cash flow exposures from changes in interest rates as more than 50% of the Company's debt is not at fixed rates. At September 30, 2003, the fair value of the Company's long-term debt is based on quoted market prices at the reporting date or is estimated by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities. At September 30, 2003, the Company had long-term debt with a carrying value of \$153.4 million and estimated fair value of the same. The Company has no significant operations subject to risks of foreign currency fluctuations.

ITEM 4.

CONTROLS AND PROCEDURES

As of September 30, 2003, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Exchange Act Rule 15d-15(e) and Rule 13a-15(e). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective in enabling the Company to record, process, summarize and report information required to be included in the Company's periodic SEC filings within the required time period. There have been no changes in internal controls over financial reporting that has materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

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infoUSA INC.
FORM 10-Q

FOR THE QUARTER ENDED

SEPTEMBER 30, 2003

PART II

OTHER INFORMATION

ITEM 1.
LEGAL PROCEEDINGS

On May 14, 2002, a principal of one of the acquisitions made by the Company in 1996 was awarded \$1.7 million by an arbitrator for settlement of a dispute regarding exercise of stock options issued by the Company. Although the Company has appealed the arbitrator's decision, the Company's management, under advice from outside counsel, determined during the third quarter of 2003 that the Company was not likely to be successful in the appeal. Consequently, the Company recorded a litigation charge of \$1.7 million during the three months ended September 30, 2003, for the arbitrator's award.

ITEM 5.
SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during the three months ended September 30, 2003.

ITEM 6.
EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1*	Credit Agreement by and among <i>infoUSA</i> , Inc., various Lenders (as defined therein) and Bank of America, N.A. dated as of May 27, 2003.
10.2*	Pledge Agreement by and among <i>infoUSA</i> , Inc., Various Lenders (as defined therein) and Bank of America, N.A. dated as of May 27, 2003.
10.3*	Security Agreement by and among <i>infoUSA</i> , Inc., various Lenders (as defined therein) and Bank of America, N.A. dated as of May 27, 2003
10.4*	Subsidiaries Guaranty Agreement by and among <i>infoUSA</i> , Inc., various Lenders (as defined therein) and Bank of America, N.A. dated as of May 27, 2003.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1*	Certification of Chief Executive Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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32.2* Certification of Chief Financial Officer pursuant to Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

* Filed herewith

(b) Reports on Form 8-K

The Company filed a Form 8-K under Items 7 and 12 (filed under Item 9 as permitted by SEC guidance) on July 18, 2003 for a press release announcing second quarter results; Form 8-K under Items 5, 7 and 9 (filed under Item 9 as permitted by SEC guidance) on August 20, 2003 press releases announcing lower interest rates on the revolving line of credit, Tim Hoffman's appointment to Chief Accounting Officer and Stormy Dean's departure as Chief Financial Officer; Form 8-K under Items 5, 7 and 9 (filed under Item 9 as permitted by SEC guidance) on September 12, 2003 press releases announcing the Appointment of Raj Das as Chief Financial Officer and revision of guidance for 2003; and a Form 8-K under Items 7 and 12 (filed under Item 9 as permitted by SEC guidance) on October 15, 2003 for a press release announcing third quarter results.

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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.

infoUSA INC.

Date: November 13, 2003

/s/ Tim Hoffman

Tim Hoffman, Chief Accounting Officer
(principal accounting officer)

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Exhibit Index

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