INFOUSA INC
Form 10-Q
May 10, 2004

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2004 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 [X] No [ ]

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

53,342,738 shares of Common Stock at May 4, 2004

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infoUSA INC.

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infoUSA INC.

FORM 10-Q

FOR THE QUARTER ENDED

March 31, 2004

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)**

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | (UNAUDITED) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 44,894 | $ 2,686 |
| Marketable securities | 3,446 | 3,685 |
| Trade accounts receivable, net of allowances of $1,818 and $2,492, respectively | 36,365 | 40,922 |
| List brokerage trade accounts receivable | 10,920 | 12,844 |
| Income taxes receivable | | 1,046 |
| Prepaid expenses | 4,988 | 4,985 |
| Deferred marketing costs | 3,833 | 5,457 |
| Total current assets | 104,446 | 71,625 |
| Property and equipment, net | 40,622 | 40,984 |
| Intangible assets, net | 250,271 | 247,609 |
| Other assets | 5,939 | 6,128 |
| | $401,278 | $366,346 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 52,264 | $ 17,280 |
| Accounts payable | 12,361 | 16,212 |
| List brokerage trade accounts payable | 7,642 | 9,516 |
| Accrued payroll expenses | 12,924 | 17,793 |
| Accrued expenses | 3,398 | 824 |
| Income taxes payable | 2,545 | |
| Deferred income taxes | 3,098 | 3,241 |
| Deferred revenues | 24,328 | 19,824 |
| Total current liabilities | 118,560 | 84,690 |

| | | |
|---|---|---|
| Long-term debt, net of current portion | 121,221 | 122,485 |
| Deferred income taxes | 8,124 | 8,553 |
| Deferred revenue | | 3,000 |
| Other liabilities | 1,397 | 1,397 |
| Stockholders equity: | | |
| Common stock, $.0025 par value. Authorized 295,000,000 shares; 52,934,267 shares issued and 52,438,286 outstanding at March 31, 2004 and 52,808,835 shares issued and 52,271,323 outstanding at December 31, 2003 | 132 | 132 |
| Paid-in capital | 100,768 | 99,447 |
| Retained earnings | 56,305 | 51,932 |
| Treasury stock, at cost, 495,981 shares held at March 31, 2004 and 537,512 held at December 31, 2003 | (3,008) | (3,247) |
| Notes receivable from officers | (329) | (325) |
| Accumulated other comprehensive loss | (1,892) | (1,718) |
| Total stockholders equity | 151,976 | 146,221 |
| | $401,278 | $366,346 |

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, | |
|---|---|---|
| | 2004 | 2003 |
| | (UNAUDITED) | |
| Net sales | $ 80,811 | $ 76,080 |
| Costs and expenses: | | |
| Database and production costs | 23,861 | 20,900 |
| Selling, general and administrative (excluding non-cash stock option compensation expense of $182 and $0 for the three months ended March 31, 2004 and 2003, respectively) | 40,179 | 33,134 |
| Depreciation and amortization of operating assets | 3,314 | 3,851 |
| Amortization of intangible assets | 3,446 | 3,324 |
| Non-cash stock option compensation | 182 | |
| Restructuring charges | 615 | 555 |
| Acquisition costs | 3 | 13 |
| Total operating costs and expenses | 71,600 | 61,777 |
| Operating income | 9,211 | 14,303 |
| Other income (expense): | | |
| Investment income | 201 | 682 |
| Other charges | (144) | (335) |
| Interest expense | (2,214) | (3,661) |
| Income before income taxes | 7,054 | 10,989 |
| Income taxes | 2,681 | 4,134 |
| Net income | $ 4,373 | $ 6,855 |
| Basic earnings per share: | | |
| Net income | $ 0.08 | $ 0.13 |
| Weighted average shares outstanding | 52,338 | 51,144 |

| | | |
|---|---|---|
| Diluted earnings per share: | | |
| Net income | $ 0.08 | $ 0.13 |
| Weighted average shares outstanding | 52,955 | 51,144 |

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, | |
|---|---|---|
| | **2004** | **2003** |
| | (UNAUDITED) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 4,373 | $ 6,855 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of operating assets | 3,314 | 3,851 |
| Amortization of intangible assets | 3,446 | 3,324 |
| Amortization of deferred financing costs | 54 | 183 |
| Deferred income taxes | (1,311) | 1,281 |
| Non-cash stock option compensation expense | 182 | |
| Non-cash 401(k) contribution in common stock | 384 | 359 |
| Gain on sale of assets | (191) | (179) |
| Non-cash other charges | 144 | 135 |
| Changes in assets and liabilities, net of effect of acquisitions: | | |
| Trade accounts receivable | 6,508 | (99) |
| List brokerage trade accounts receivable | 1,924 | 2,551 |
| Prepaid expenses and other assets | 456 | (2,022) |
| Deferred marketing costs | 1,624 | (635) |
| Accounts payable | (3,876) | 3,016 |
| List brokerage trade accounts payable | (2,023) | (1,870) |
| Income taxes receivable and payable, net | 3,591 | 2,613 |
| Accrued expenses and other liabilities | (2,456) | 2,915 |
| Net cash provided by operating activities | 16,143 | 22,278 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale of other investments | 377 | |
| Purchase of other investments | (223) | |
| Purchases of property and equipment | (1,651) | (1,820) |
| Acquisitions of businesses, net of cash acquired | (6,104) | (5,260) |
| Software and database development costs | (452) | (123) |
| Net cash used in investing activities | (8,053) | (7,203) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |

| | | |
|---|---|---|
| Repayment of long-term debt | (105,094) | (15,990) |
| Proceeds of long-term debt | 138,814 | |
| Deferred financing costs paid | (436) | (28) |
| Proceeds from exercise of stock options | 834 | |
| Net cash used in financing activities | 34,118 | (16,018) |
| Net decrease in cash and cash equivalents | 42,208 | (943) |
| Cash and cash equivalents, beginning | 2,686 | 6,285 |
| Cash and cash equivalents, ending | $ 44,894 | $ 5,342 |
| Supplemental cash flow information: | | |
| Interest paid | $ 1,307 | $ 1,082 |
| Income taxes paid | $ 75 | $ 233 |

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, 2003 included in the Company s 2003 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.

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, 2003, 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, | |
|---|---|---|
| | **2004** | **2003** |
| | (In Thousands) | |
| Weighted average number of shares used in basic EPS | 52,338 | 51,144 |
| Net additional common stock equivalent shares outstanding after assumed exercise of stock options | 617 | |
| Weighted average number of shares outstanding used in diluted EPS | 52,955 | 51,144 |

3. SEGMENT INFORMATION

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

The infoUSA group (formerly known as 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.

The Donnelley group (formerly known as 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 infoUSA group and Donnelley group 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 (loss), 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 infoUSA group and Donnelley group segments reflect actual net sales, direct order production, and identifiable direct sales and marketing-related costs related to their operations. The Company records unusual or non-recurring items including acquisition-related and restructuring charges and provisions for litigation settlement in corporate activities to allow for the analysis of the sales business segments excluding such unusual or non-recurring charges.

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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, 2004 | | | |
|---|---|---|---|---|
| | infoUSA Group | Donnelley Group | Corporate Activities | Consolidated Total |
| | (In thousands) | | | |
| Net sales | $40,017 | $40,794 | $ | $80,811 |
| Non-cash stock compensation | | | (182) | (182) |
| Restructuring charges | | | (615) | (615) |
| Acquisition costs | | | (3) | (3) |
| Operating income (loss) | 12,462 | 19,027 | (22,278) | 9,211 |
| Investment income | | | 201 | 201 |
| Other charges | | | (144) | (144) |
| Interest expense | | | (2,214) | (2,214) |
| Income (loss) before income taxes | 12,462 | 19,027 | (24,435) | 7,054 |

| | For The Three Months Ended March 31, 2003 | | | |
|---|---|---|---|---|
| | infoUSA Group | Donnelley Group | Corporate Activities | Consolidated Total |
| | (In thousands) | | | |
| Net sales | $39,566 | $36,514 | $ | $76,080 |
| Restructuring charges | | | (555) | (555) |
| Acquisition costs | | | (13) | (13) |
| Operating income (loss) | 15,211 | 18,109 | (19,017) | 14,303 |
| Investment income | | | 682 | 682 |
| Other charges | | | (335) | (335) |
| Interest expense | | | (3,661) | (3,661) |
| Income (loss) before income taxes | 15,211 | 18,109 | (22,331) | 10,989 |

4. COMPREHENSIVE INCOME (LOSS)

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

| | For The Three Months Ended | |
|---|---|---|
| | March 31, 2004 | March 31, 2003 |

| | | |
|---|---|---|
| | (In thousands) | |
| Net income | $4,373 | $6,855 |
| Other comprehensive income: | | |
| Unrealized gain from investments: | | |
| Unrealized gains (losses) | (278) | 24 |
| Related tax expense | 104 | (9) |
| Net | (174) | 15 |
| Total other comprehensive income. | (174) | 15 |
| Comprehensive income | $4,199 | $6,870 |

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

| | Unrealized Gains/(Losses) Pension plan | Foreign Currency Translation Adjustments | Unrealized Gains / (Losses) On Securities | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| | (in thousands) | | | |
| Balance at March 31, 2004 | $ (866) | $ (672) | $ (353) | $ (1,892) |
| Balance at December 31, 2003 | $ (866) | $ (672) | $ (180) | $ (1,718) |

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5. ACQUISITIONS

On February 2, 2004, the Company acquired Triplex Direct Marketing Corp., a provider of data processing services to nonprofit and catalog customers. The total purchase price was $7.6 million, of which, $6.1 million was payable in cash at closing and the remaining $1.5 million will be payable on February 2, 2005 if Triplex satisfies all its representations, warranties, covenants and agreements. The purchase price for the acquisition has been preliminarily allocated to current assets of $2.4 million, property and equipment of $0.7 million, current liabilities of $2.4 million and goodwill of $5.4 million. The acquisition has been accounted for under the purchase method of accounting, and accordingly, the operating results of Triplex have been included in the Company s financial statements since the date of acquisition.

6. CREDIT FACILITY

On March 25, 2004, the Company financed a new Senior Secured Credit Facility administered by Wells Fargo Bank, N.A. The new credit facility provides for a $120.0 million term loan with a maturity date of March 2009 and a $50.0 million revolving line of credit with a maturity date of March 2007.

The Senior Secured Credit Facility provides for grid-based interest pricing based upon the Company s consolidated total leverage ratio and ranges from base rate plus 0.75% to 1.50% for base rate loans and from LIBOR plus 1.75% to 2.50% for use of the revolving credit facility. The term loan interest rate is base rate plus 1.50% to 1.75% or LIBOR plus 2.25% to 2.50%. Substantially all of the assets of the Company are pledged as security under the terms of the credit facility. At March 31, 2004, the term loan had a balance of $120.0 million with an interest rate of 3.59% and $37.9 million was available under the revolving credit facility.

The Company is subject to certain financial covenants in the Credit Facility, including minimum consolidated fixed charge coverage ratio, maximum consolidated total leverage ratio and minimum consolidated net worth. Management believes the Company is in compliance with or has obtained waivers for all restrictive covenants of the Company s various debt facilities.

7. NON-CASH STOCK COMPENSATION EXPENSE

At March 31, 2004, 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 March 31,** | |
|---|---|---|
| | **2004** | **2003** |
| | **(in thousands, except per share amounts)** | |
| Net income, as reported | $4,373 | $6,855 |

| | | |
|---|---|---|
| Less: Total stock-based employee compensation expense determined under fair value based method, net of taxes | 665 | 240 |
| Net income, pro forma | $3,708 | $6,615 |
| Earnings per share: | | |
| Basic as reported | $ 0.08 | $ 0.13 |
| Basic pro forma | $ 0.07 | $ 0.13 |
| Diluted as reported | $ 0.08 | $ 0.13 |
| Diluted pro forma | $ 0.07 | $ 0.13 |

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 2004: expected volatility of 75.37%, risk free interest rate of 3.13% 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 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 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 and is updated at each balance sheet date. As such, the Company has recorded a non-cash charge of $182 thousand, related to stock options granted to the consultant during the three months ended March 31, 2004. 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 of $175 thousand for this consulting agreement was recorded during the three months ended March 31, 2004 and 2003, respectively.

8. RESTRUCTURING CHARGES

During the three months ended March 31, 2004, the Company recorded restructuring charges due to workforce reductions of $615 thousand. The charges included involuntary employee separation costs (severance) for 96 employees in administration, order production and sales. As of March 31, 2004, an accrual of $216 thousand was included in the accompanying consolidated balance sheet for severance costs remaining to be paid.

During the three months ended March 31, 2003, the Company recorded restructuring charges due to workforce reductions of $555 thousand. The charges included involuntary employee separation costs for 56 employees in administration, sales support and marketing functions.

The following table summarizes activity related to the restructuring charges recorded by the Company, including the liability accrual balances:

| Period End | Beginning Accrual | Amounts Expensed | Amounts Paid | Ending Accrual |
|---|---|---|---|---|
| | | (In thousands) | | |
| March 31, 2004 | $ 247 | $615 | $646 | $216 |

9. ACQUISITION COSTS

The Company recorded costs of $3 thousand and $13 thousand during the three months ended March 31, 2004 and 2003, 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.

10. OTHER CHARGES

During the quarter ended March 31, 2004, the Company wrote-off deferred financing costs of $144 thousand related to the prior credit facility as a result of the financing on March 25, 2004 of the new Senior Secured Credit Facility described in Note 6.

During the quarter ended March 31, 2003, the Company purchased $5.0 million of its Senior Subordinated Notes. As part of these repurchases, the Company recorded charges of $0.3 million for net unamortized debt issue costs related to the Senior Subordinated Notes and for amounts paid in excess of carrying value of the debt.

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11. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following:

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | (In thousands) | |
| Goodwill | $267,241 | $261,398 |
| Non-compete agreements | 13,534 | 13,534 |
| Core technology | 4,800 | 4,800 |
| Customer base | 8,372 | 8,372 |
| Trade names | 15,802 | 15,815 |
| Purchased data processing software | 73,478 | 73,478 |
| Acquired database costs | 19,000 | 19,000 |
| Perpetual software license agreement, net | 2,733 | 2,933 |
| Software development costs, net | 1,944 | 2,128 |
| Database development costs, net | 373 | 149 |
| Deferred financing costs | 8,652 | 8,216 |
| | 415,929 | 409,823 |
| Less accumulated amortization | 165,658 | 162,214 |
| | $250,271 | $247,609 |

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.

13. SUBSEQUENT EVENTS

On March 26, 2004 the Company provided notice to the trustee of the Company s 9 ½% Senior Subordinated Notes (the Notes ) that it intended to redeem all of its outstanding Notes on April 26, 2004. As of March 31, 2004, the Company had Notes outstanding of $30.0 million.

On March 25, 2004 and in conjunction with the closing of the new Senior Credit Facility, the Company borrowed $32.5 million to redeem the Notes and funds were placed in escrow with the trustee as required under the Notes Indenture. Accordingly, the Company s accompanying consolidated balance sheet at March 31, 2004 reflects the cash in escrow of $32.5 million in cash and cash equivalents and this cash is unavailable for any other use, and $30.0 million of outstanding Notes in current portion of long-term debt.

On April 26, 2004 the Notes were redeemed at a premium of 4.75% to face amount. The total amount required at the time of redemption was $32.5 million, which included the cost of the bonds at par ($30.0 million), the premium ($1.5 million) and accrued interest through the redemption date ($1.0 million). The Company subsequently recorded a loss of $1.5 million on the retirement of the Notes, equal to the amount of the premium paid at redemption.

On April 29, 2004, the Company entered into an agreement to acquire OneSource Information Services, Inc. ( OneSource ). Pursuant to the agreement, the Company will make a cash tender offer of $8.85 per share to acquire all of the outstanding common stock of OneSource. The offer period is expected to run for twenty business days, subject to possible extension, and is subject to regulatory review. Following completion of the offer period, OneSource will be merged into a subsidiary of the Company. In the merger, all shares not tendered to the Company will be converted into the right to receive $8.85 per share. The aggregate cash purchase price for the acquisition is expected to be approximately $106 million. Completion of the acquisition is dependent on a number of conditions, including there being tendered at least 51% of the outstanding shares, on a fully-diluted basis, by OneSource shareholders. If less than 90% of the shares of the common stock of OneSource are tendered into the offer, completion of the transaction will require a vote of the shareholders.

In connection with the tender offer, OneSource has granted the Company an option to acquire up to 19.9% of the issued and outstanding shares of common stock. The option becomes exercisable only upon the acceptance and payment for shares of common stock in the tender offer if, after the exercise of the option, the Company would own 90% or more of the common shares of OneSource.

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In connection with the transactions contemplated by the Merger Agreement, ValueAct Capital Partners, L.P. and certain of its affiliates have entered into a Tender and Voting Agreement, and Martin Kahn has entered into a Stockholder Support Agreement, pursuant to which such stockholders have agreed to tender their Common Shares pursuant to the Offer and vote in favor of the Merger. Such stockholders currently hold approximately 34.1% of the outstanding Common Shares of OneSource.

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ITEM 2.

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

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.

GENERAL

**Overview**

*Products and Services*

*info*USA 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 in the United States and Canada and 200 million individuals and 110 million households in the United States. 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-sized businesses, Fortune 1000 companies, consumers, and Internet users.

*Sales Overview*

Our revenue has historically been derived predominantly through the sale of customized sales lead generation products. We have successfully capitalized on new markets and applications for our proprietary databases, as our Company expanded product and service offerings. We began to recognize significant revenue from data processing services in 1997, following the acquisition of Database America and continued expanding our data processing revenue with the acquisition of Donnelley Marketing in July of 1999. The acquisition of Donnelley Marketing enhanced our proprietary consumer database and database marketing services. The merger made us the only company in our industry to offer proprietary business and consumer data, data processing, and database marketing services and gave us the ability to offer complete solutions and fulfill substantially all the database, data processing, and database marketing needs of our Fortune 1000 customers. Walter Karl and JAMI Marketing were acquired in 1998 providing the Company s direct entry into the complimentary sales list brokerage and list management industries. The Company has recognized strong Internet license revenue and Internet content sales since 1999 and believes there is significant opportunity to expand the market for our products and services over the Internet. The Company acquired Polk City Directories in 2001 and Hill-Donnelly and City Publishing in 2002, expanding the Company s presence in the published directories markets, specifically the criss-cross reference directory market. Finally, the Company s acquisitions of ClickAction, Yesmail and Markado during 2002 and 2003 provided the entrance to yet another complimentary sales market offering e-mail customer acquisition and customer retention solutions. We estimate that no customer represented greater than approximately 5% of our net sales in 2003.

*Financial Performance*

Operating income for the quarter ended March 31, 2004 was $9.2 million, or 11% of net sales, down from $14.3 million, or 19% of net sales, for the same period in 2003, as the Company continued to make extensive investments in increased sales staff, advertising and marketing to grow revenue internally.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), as adjusted, margins were down from 28% of net sales for the quarter ended March 31, 2004 to 20% of net sales for the same period in 2003 due to the same reasons described above for the decrease in operating income. Company management utilizes the non-GAAP financial disclosure of EBITDA, as adjusted, as a key financial measure in the analysis of its financial performance, as it does with similar GAAP financial measures including operating income and cash flows from operations. The Company s Senior Secured Credit Facility provides for financial covenants that are based on EBITDA, as adjusted. Additionally, the Company has historically had a significant amount of recorded goodwill and purchased intangibles resulting from the acquisition of other companies, and the amount of non-cash amortization expense associated

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with these acquisitions has varied significantly between reporting periods. The Company s calculation of EBITDA is defined by footnote in the accompanying financial data table.

*Mergers and Acquisitions*

The Company has supplemented its internal growth through strategic acquisitions. The Company has completed over 20 acquisitions since 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 it offerings for e-mail and business marketing information. During 2002 and 2003, the Company enhanced its presence in e-mail marketing services and solutions with the acquisition 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 Polk City Directories in 2001 and the Hill-Donnelly and City Publishing directory companies during 2002. As described in the notes to the accompanying financial statements, the Company acquired Triplex during 2004 expanding its data processing solutions in the non-profit and catalog markets.

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.

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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 March 31, 2004 | THREE MONTHS ENDED March 31, 2003 |
|---|---|---|
| **CONSOLIDATED STATEMENT OF OPERATIONS DATA:** | | |
| Net sales | 100% | 100% |
| Costs and expenses: | | |
| Database and production costs | 30 | 27 |
| Selling, general and administrative | 50 | 44 |
| Depreciation | 4 | 5 |
| Amortization | 4 | 4 |
| Non-cash stock compensation expense | | |
| Restructuring charges | 1 | 1 |
| Acquisition costs | | |
| Total costs and expenses | 89 | 81 |
| Operating income | 11 | 19 |
| Other expense, net | (3) | (5) |
| Income before income taxes | 8 | 14 |
| Income taxes | 3 | 5 |
| Net income | 5% | 9% |

| | (in thousands) | |
|---|---|---|
| **OTHER DATA:** | | |
| SALES BY SEGMENT: | | |
| infoUSA Group | $40,017 | $39,566 |
| Donnelley Group | 40,794 | 36,514 |
| Total | $80,811 | $76,080 |

SALES BY SEGMENT AS A PERCENTAGE OF NET SALES:

| | | |
|---|---|---|
| infoUSA Group | 50% | 52% |
| Donnelley Group | 50 | 48 |
| Total | 100% | 100% |
| | (in thousands) | |
| Amortization expense of intangible assets (1) | $ 3,446 | $ 3,324 |
| Earnings before, interest, taxes, depreciation and amortization, (EBITDA), as adjusted (2) | $16,153 | $21,478 |
| EBITDA, as adjusted, as a percentage of net sales | 20% | 28% |
| | (in thousands) | |
| Cash Flow Data: | | |
| Net cash from operating activities | $15,987 | $ 22,278 |
| Net cash used in investing activities | $ (7,897) | $ (7,203) |
| Net cash from (used) in financing activities | $34,118 | $(16,018) |

(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 (gains), 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 March 31, | |
|---|---|---|
| | 2004 | 2003 |
| | (in thousands) | |
| Net income | $ 4,373 | $ 6,855 |
| Other charges | 144 | 335 |
| Investment income | (201) | (682) |
| Interest expense | 2,214 | 3,661 |
| Income taxes | 2,681 | 4,134 |
| Depreciation | 3,314 | 3,851 |
| Amortization | 3,446 | 3,324 |
| Non-cash stock compensation | 182 | |
| EBITDA, as adjusted | $16,153 | $21,478 |

Net sales

Net sales for the quarter ended March 31, 2004 were $80.8 million, an increase of 6% from $76.1 million for the same period in 2003. Net sales of the *info*USA Group segment for the quarter ended March 31, 2004 were $40.0 million, a 1% increase from $39.6 million for the same period in 2003. Excluding the results of the Polk City Directories division included within this segment, the *info*USA Group segment sales were $33.6 million in 2004, up 6% from $31.8 million in 2003. The decrease in net sales for the Polk City Directories division was principally due to changes in the timing of production and delivery of certain printed directories. The infoUSA Group 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 Donnelley Group segment for the quarter ended March 31, 2004 were $40.8 million, a 12% increase from $36.5 million for the same period in 2003. The increase was principally due to the acquisition of Yesmail in March 2003 and Triplex in February 2004. The Donnelley Group 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 March 31, 2004 were $23.9 million, or 30% of net sales, compared to $20.9 million, or 27% of net sales for the same period in 2003. The increase in database and production costs principally relates to the acquisition of Yesmail In March 2003 and Triplex in February 2004. These acquired companies historically had higher database and production costs structures, expressed as a percentage of net sales, than the Company s existing businesses.

Selling, general and administrative expenses

Selling, general and administrative expenses for the quarter ended March 31, 2004 were $40.2 million, or 50% of net sales, compared to $33.1 million, or 44% of net sales for the same period in 2003. The increase in selling, general and administrative expenses principally relates to the Company s planned increase in direct marketing costs and the addition of approximately 200 sales staff beginning during the second half of 2003. Additionally, the increase is partially due to the acquisition of companies during 2003 and 2004, including Yesmail and Triplex. These acquired companies historically had higher selling, general and administrative cost structures, expressed as a percentage of net sales, than the Company s existing businesses.

Depreciation expense

Depreciation expense for the quarter ended March 31, 2004 totaled $3.3 million, or 4% of net sales, compared to $3.9 million, or 5% of net sales for the same period in 2003.

Amortization expense

Amortization expense for the quarter ended March 31, 2004 totaled $3.4 million, or 4% of net sales, compared to $3.3 million, or 4% of net sales for the same period in 2003. The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, as of

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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. The Company completed impairment tests as of October 31, 2003, as required by SFAS 142, and established that no impairment exists.

Non-cash stock compensation expense

During the quarter ended March 31, 2004, the Company recorded a non-cash charge of $182 thousand, compared to $0 thousand for the same period in 2003. The Company recorded non-cash stock compensation expense related to a non-employee consulting agreement executed during 2002. The Company will incur additional non-cash compensation expense for the 2002 consultant options during the vesting period of those options. The amount of compensation expense will be affected by changes in the fair value of the Company s common stock.

Restructuring costs

The Company recorded restructuring charges during the quarters ended March 31, 2004 and 2003 of $0.6 million and $0.6 million, respectively, related to workforce reductions as a part of the Company s continuing strategy to reduce unnecessary costs and focus on core operations. The workforce reduction charges included involuntary employee separation costs during 2004 and 2003 for approximately 96 and 56 employees, respectively.

Acquisition costs

The Company recorded integration-related costs during the quarters ended March 31, 2004 and 2003 of $3 thousand and $13 thousand, respectively. The integration-related costs included general and administrative costs, information system conversion costs and other direct integration-related charges. These costs were not directly related to the recent acquisition of various companies, and therefore could not be capitalized.

Operating income

Including the factors previously described, the Company had operating income of $9.2 million, or 11% of net sales during the quarter ended March 31, 2004, compared to operating income of $14.3 million, or 19% of net sales for the same period in 2003. 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, and 3) increased operating expenses represented as percentage of net sales associated with companies acquired during 2003 and 2004 including Yesmail and Triplex.

Operating income for the infoUSA Group segment for the quarter ended March 31, 2004 was $12.5 million, or 31% of net sales, as compared to $15.2 million, or 38% of net sales for the same period in 2003. The decrease in operating income as a percentage of nets sales is principally due to items 1) and 2) described in the preceding paragraph.

Operating income for the Donnelley Group segment for the quarter ended March 31, 2004 was $19.0 million, or 47% of net sales, as compared to $18.1 million, or 50% of net sales for the same period in 2003. The decrease in operating income as a percentage of net sales is principally due to increased operating expenses represented as percentage of net sales associated with companies acquired during 2003 and 2004 including Yesmail and Triplex.

Other income (expense), net

Other expense, net was $(2.2) million, or 3% of net sales, and $(3.3) million, or 5% of net sales, for the quarters ended March 31, 2004 and 2003, respectively. Other income or (expense), net is comprised of interest expense, investment income and other income or expense items, which do not represent components of operating expense of the Company.

Interest expense was $2.2 million and $3.7 million for the quarters ended March 31, 2004 and 2003, respectively. The decrease is principally due to lower interest rates on a previous Senior Secured Credit Facility refinanced in May 2003, the continued reduction in the amount of 9 1/2 % Senior Subordinated Notes outstanding and favorable interest rates. Investment income was $0.2 million and $0.7 million, for the quarters ended March 31, 2004 and 2003, respectively.

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Income taxes

A provision for income taxes of $2.7 million and $4.1 million was recorded during the quarters ended March 31, 2004 and 2003, respectively. Upon the adoption of SFAS No. 142 on January 1, 2002, the Company ceased amortizing goodwill and certain intangible assets for financial reporting purposes and consequently, the amortization expense for those assets does not affect either book or taxable income.

EBITDA, as adjusted

The Company s EBITDA, as adjusted, was $16.2 million, or 20% of net sales during the quarter ended March 31, 2004, compared to $21.5 million, or 28% of net sales for the same period in 2003. The decrease in EBITDA, as adjusted, represented as a percentage of net sales principally relates to the Company s planned increase in direct marketing costs and the addition of approximately 200 sales staff during the latter half of 2003.

**Liquidity and Capital Resources**

*Overview*

Our principal sources of liquidity are cash flow provided by our operating activities, our revolving credit facilities, and cash and cash equivalents on hand. Our ability to generate cash from our operations is one of our fundamental financial strengths. We use cash flows from operations, along with borrowings, to fund capital expenditures, growth initiatives, make acquisitions and retire outstanding indebtedness.

*General Information- Debt Instruments, Financial Covenants and Sources and Uses of Cash*

On March 25, 2004, the Company financed a new Senior Secured Credit Facility (the Credit Facility ) administered by Wells Fargo Bank, N.A. The new credit facility provides for a $120.0 million term loan with a maturity date of March 2009 and a $50.0 million revolving line of credit with a maturity date of March 2007.

The Credit Facility provides for grid-based interest pricing based upon the Company s consolidated total leverage ratio and ranges from base rate plus 0.75% to 1.50% for base rate loans and from LIBOR plus 1.75% to 2.50% for use of the revolving credit facility. The term loan interest rate is base rate plus 1.50% to 1.75% or LIBOR plus 2.25% to 2.50%. Substantially all of the assets of the Company are pledged as security under the terms of the Credit Facility. At March 31, 2004, the term loan had an outstanding balance of $120.0 million with an interest rate of 3.59%. At March 31, 2004 the revolving credit facility had an outstanding balance of $12.1 million with an interest rate of 3.09% and $37.9 million was available under the revolving credit facility.

The Company is subject to certain financial covenants in the Credit Facility, including minimum consolidated fixed charge coverage ratio, maximum consolidated total leverage ratio and minimum consolidated net worth. Management believes the Company is in compliance with all restrictive covenants of the Credit Facility.

On April 29, 2004, The Company entered into an agreement to acquire OneSource Information Services, Inc. for approximately $106 million in cash. In connection with this acquisition, the Company intends to amend the Credit Facility with Wells Fargo Bank, N.A to obtain an additional $80 million of financing. Upon consummation of the financing, the Company will have the ability to borrow up to $250 million, consisting of (i) a five year term note of $120 million bearing interest at LIBOR plus 2.5%, (ii) a six year term note of $80 million bearing interest at LIBOR plus 2.75%, and (iii) a revolving credit facility of $50 million. These loans will be secured by substantially all of the assets of the Company.

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.

*Selected Consolidated Statements of Cash Flows Information*

As of March 31, 2004, the Company s principal sources of liquidity included $37.9 million available under the Credit Facility. As of March 31, 2004, the Company had a working capital deficit of $14.1 million.

Net cash provided by operating activities during the quarter ended March 31, 2004 totaled $16.1 million compared to $22.3 million for the same period in 2003.

During the quarter ended March 31, 2004, the Company spent $1.7 million for additions of property and equipment and $0.5 million related to software and database development costs.

During the quarter ended March 31, 2004, the Company spent $6.1 million for acquisitions of businesses, net of cash acquired of $0.2 million. The Company paid $5.9 million for Triplex (net of cash acquired of $0.2 million) and capitalized acquisition costs of $0.2 million.

*Selected Consolidated Balance Sheet Information*

Trade accounts receivable decreased to $36.4 million at March 31, 2004 from $40.9 million at December 31, 2003. The day s sales outstanding ( DSO ) ratio for the quarter ended March 31, 2004 was 41 days compared to 49 days for the same period in 2003. The decrease in the DSO ratio relates to the continued application of strict credit and collection practices.

Deferred marketing costs decreased to $3.8 million at March 31, 2004 from $5.5 million at December 31, 2003. The decrease is the direct result of the Company s decreased spending during the quarter ended March 31, 2004 from the level of spending incurred during the latter half of 2003 on direct marketing costs that are subject to deferral and amortization.

Selected other balance sheet accounts including list brokerage trade accounts receivable, prepaid expenses, list brokerage trade accounts payable, accounts payable, accrued expenses and accrued payroll expenses increased (decreased) moderately from their respective account balances at March 31, 2004 from their respective account balances at December 31, 2003. The increase (decrease) in these account balances is due to the acquisition of certain companies during 2003 and 2004 and payment timing differences related to various general operating expenses.

Deferred revenue increased to $24.3 million at March 31, 2004 from $19.8 million at December 31, 2003. The increase is due to increased database license sales, which are subject to deferral and amortization, during fiscal year 2004 from fiscal year 2003.

Current portion of long-term debt increased to $52.3 million at March 31, 2004 from $17.3 million at December 31, 2003. As described in Note 13 to the accompanying consolidated financial statements, the Company borrowed on March 26, 2004 the total amount due of $32.5 million for the redemption of the Company s Senior Subordinated Notes. The funds were placed in escrow with the Notes trustee as required under the Notes Indenture. The Notes were subsequently redeemed on April 26, 2004.

Long-term debt, net of current portion decreased to $121.2 million at March 31, 2004 from $122.5 million at December 31, 2003.

Other than facility leasing arrangements, the Company does not engage in off-balance sheet financing activities.

**Accounting Standards**

In January 2003, the FASB issued FASB interpretation No. 46 (Revised), *Consolidation of Variable Interest Entities.* FIN No. 46(R) 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 currently have any variable interest entities; therefore FIN No. 46 will not have a material impact on the financial position, results of operations, and cash flows of the Company.

**Inflation**

We do not believe that the rate of inflation has had a material effect on our operating results. However, inflation could adversely affect our future operating results if it were to result in a substantial weakening economic condition.

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### 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 of developing more efficient and profitable applications of our content through the Internet is evolving. 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, we compete with Regional Bell Operating Companies and many smaller, regional directory publishers.

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

Technologies which companies may install and implement in-house as part of their internal information systems 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 leveraged. If we are unable to service our debt as it becomes due, our business would be harmed.*

As of March 31, 2004, we had total indebtedness of approximately $143.5 million, excluding $30.0 million of Notes due under an indenture (the Indenture ) that were subsequently redeemed as of April 26, 2004. Substantially all of our assets are pledged as security under the terms of the Credit Facility.

Our ability to pay principal and interest on the Notes issued under the Indenture and the indebtedness under the Credit Facility and our ability 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 Credit Facility 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 Credit Facility) or seeking additional equity capital. We may not be able to implement any such measures or obtain additional financing or terms that are favorable or satisfactory to us, if at all.

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

Our existing Credit Facility contain certain covenants that restricts our ability to:

- Incur additional indebtedness;
- Pay dividends and make certain other similar payments;
- Guarantee indebtedness of others;
- Enter into certain transactions with affiliates;
- Consummate 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 Facility. 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 Facility, the lenders could foreclose on our assets that secure the indebtedness.

*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.

*Our ability to increase our revenues will depend to some extent upon introducing new products and services, and if the marketplace does not accept these new products and services, our revenues may decline.*

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To increase our revenues, we must enhance and improve existing products and continue to introduce new products and new versions of existing products that keep pace with technological developments, satisfy increasingly sophisticated customer requirements, and achieve market acceptance. We believe much of our future growth prospects will rest on our ability to continue to expand into newer products and services. Products and services that we plan to market in the future are in various stages of development. We cannot assure you that the marketplace will accept these products. If our current or potential customers are not willing to switch to or adopt our new products and services, our ability to increase revenues will be impaired.

*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. For instance, some of the data and services that we provide are subject to regulation under the Fair Credit Reporting Act, which regulates the use of consumer credit information, and to a lesser extent, the Gramm-Leach-Bliley Act, which regulates the use of non-public personal information. We are also subject to the United Kingdom s Data Protection Act of 1998, which became fully effective on October 24, 2001 and regulates the manner in which we can use third-party data, and recent regulatory limitations relating to use of the Electoral Roll, one of our key data sources in 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 collection, management or 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 1996 and completed the integration of these acquisitions into our existing business by the end of 2003, with the exception of Triplex which was acquired in February 2004. We continue to evaluate strategic opportunities available to us and intend to pursue opportunities that we believe fit our business strategy. 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.

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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 nearly all of the Company s debt is not at fixed rates. At March 31, 2004, 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 March 31, 2004, the Company had long-term debt with a carrying value of $143.5 million (excluding $30.0 million of Senior Subordinated Notes redeemed on April 26, 2004) 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 March 31, 2004, 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

MARCH 31, 2004

PART II

OTHER INFORMATION

ITEM 4.
SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the 2004 Annual Meeting of Stockholders of the Company held on May 4, 2004, the stockholders voted and approved the following items:

1. Elected the following directors to the Board of Directors for a term of three years.

| | | | | |
|---|---|---|---|---|
| Harold W. Andersen | FOR: | 47,462,024 | WITHHELD: | 2,957,516 |
| Elliot S. Kaplan | FOR: | 40,322,794 | WITHHELD: | 10,096,746 |

2. The stockholders also ratified the appointment of KPMG LLP as the Company s independent auditors to examine the financial statements of the Company for the fiscal year 2004.

| | | | | | |
|---|---|---|---|---|---|
| FOR: | 49,092,452 | AGAINST: | 1,317,119 | ABSTAIN: | 9,969 |

ITEM 6.
EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

| | |
|---|---|
| 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. |
| 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 Item 7 and 9 on January 15, 2004 announcing its fiscal year 2003 financial results; a Form 8-K under Item 7 and 9 on March 17, 2004 announcing the temporary suspension of trading of the Company s common stock due to the pending conversion of the Company s 401(k) plan to a new recordkeeper; a Form 8-K under Item 9 on March 19, 2004 disclosing selected estimated operating results for the first fiscal quarter of 2004; a Form 8-K under Item 5 and 7 on March 25, 2004 announcing a new Senior Secured Credit Facility dated March 25, 2004.

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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: May 10, 2004

*/s/ Tim Hoffman*

Tim Hoffman, Chief Accounting Officer
(principal accounting officer)

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INDEX TO EXHIBITS

| | |
|---|---|
| 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. |
| 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