

INFOUSA INC  
Form 10-Q  
May 15, 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 March 31, 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

(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.

51,208,869 shares of Common Stock at May 5, 2003

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FORM 10-Q

FOR THE QUARTER ENDED

MARCH 31, 2003

PART I

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

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## ITEM 1. FINANCIAL STATEMENTS

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

	<b>MARCH 31, 2003</b>	<b>DECEMBER 31, 2002</b>
<b>(UNAUDITED)</b>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,342	\$ 6,285
Marketable securities	905	887
Trade accounts receivable, net of allowances of \$4,244 and \$3,673, respectively	40,833	39,352
Officer note receivable	510	510
List brokerage trade accounts receivable	14,084	16,635
Prepaid expenses	6,552	4,515
Deferred marketing costs	2,382	1,746
	<u>70,608</u>	<u>69,930</u>
Property and equipment, net	46,068	45,756
Intangible assets, net	273,902	273,246
Other assets	4,627	4,454
	<u>\$ 395,205</u>	<u>\$ 393,386</u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 33,562	\$ 26,312
Accounts payable	17,313	13,303
List brokerage trade accounts payable	11,030	12,745
Accrued payroll expenses	9,347	11,410
Accrued expenses	4,320	1,827
Income taxes payable	5,900	3,287
Deferred income taxes	2,123	515
Deferred revenues	20,807	13,821
	<u>104,402</u>	<u>83,220</u>
Long-term debt, net of current portion	140,829	164,116
Deferred income taxes	21,395	21,722
Other liabilities	3,020	6,000
Stockholders equity:		
Preferred stock, \$.0025 par value. Authorized 5,000,000 shares; none issued or outstanding		
Common stock, \$.0025 par value. Authorized 295,000,000 shares; 51,869,816 shares issued and 51,188,549 outstanding at March 31, 2003 and 51,869,816 shares issued and 51,111,014 outstanding at December 31, 2002	130	130
Paid-in capital	92,115	92,205
Retained earnings	39,092	32,237
Treasury stock, at cost, 681,267 shares held at March 31, 2003 and 758,802 held at December 31, 2002	(4,083)	(4,538)

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Notes receivable from officers	(838)	(834)
Accumulated other comprehensive loss	(857)	(872)
	<u>          </u>	<u>          </u>
Total stockholders' equity	125,559	118,328
	<u>          </u>	<u>          </u>
	\$ 395,205	\$ 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)

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(UNAUDITED)</b>	
Net sales	\$ 76,080	\$ 76,723
Costs and expenses:		
Database and production costs	20,900	21,260
Selling, general and administrative	33,134	31,881
Depreciation and amortization of operating assets	3,851	3,768
Amortization of intangible assets	3,324	3,336
Restructuring charges	555	167
Acquisition costs	13	63
	<u>61,777</u>	<u>60,475</u>
Total operating costs and expenses		
Operating income	14,303	16,248
Other income (expense):		
Investment income	682	70
Other charges	(335)	(4,057)
Interest expense	(3,661)	(4,414)
	<u>10,989</u>	<u>7,847</u>
Income before income taxes		
Income taxes	4,134	2,981
	<u>6,855</u>	<u>4,866</u>
Net income		
<b>EARNINGS PER SHARE:</b>		
Basic earnings per share	\$ 0.13	\$ 0.10
	<u>51,144</u>	<u>50,908</u>
Average common shares outstanding		
Diluted earnings per share	\$ 0.13	\$ 0.10
	<u>51,144</u>	<u>51,223</u>
Diluted average common shares outstanding		

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)

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<b>2003</b>	<b>2002</b>
	<b>(UNAUDITED)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,855	\$ 4,866
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating assets	3,851	3,768
Amortization of intangible assets	3,324	3,336
Amortization of deferred financing costs	183	285
Deferred income taxes	1,281	(74)
Non-cash 401(k) contribution in common stock	359	
Loss on interest rate swap agreement		1,204
Gain on sale of assets	(179)	
Non-cash other charges	135	1,769
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(99)	(350)
List brokerage trade accounts receivable	2,551	(1,251)
Prepaid expenses	(2,022)	(84)
Deferred marketing costs	(635)	(15)
Accounts payable	3,016	1,126
List brokerage trade accounts payable	(1,870)	408
Income taxes receivable and payable, net	2,613	231
Accrued expenses and other liabilities	2,915	(6,549)
Net cash provided by operating activities	<u>22,278</u>	<u>8,670</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(1,820)	(1,244)
Acquisitions of businesses, net of cash acquired	(5,260)	(2,183)
Software and database development costs	(123)	(708)
Net cash used in investing activities	<u>(7,203)</u>	<u>(4,135)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(15,990)	(7,926)
Deferred financing costs paid	(28)	(949)
Proceeds from exercise of stock options		105
Net cash used in financing activities	<u>(16,018)</u>	<u>(8,770)</u>
Net decrease in cash and cash equivalents	(943)	(4,235)
Cash and cash equivalents, beginning	<u>6,285</u>	<u>4,382</u>
Cash and cash equivalents, ending	<u>\$ 5,342</u>	<u>\$ 147</u>
Supplemental cash flow information:		

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Interest paid	\$ 1,082	\$ 1,853
	<u>          </u>	<u>          </u>
Income taxes paid	\$ 233	\$ 3,315
	<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.

*New Accounting Standards.* 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 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. 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.

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<b>2003</b>	<b>2002</b>
	(In thousands)	
Weighted average number of shares outstanding used in basic EPS	51,144	50,908
Net additional common stock equivalent shares outstanding after assumed exercise of stock options		315
	51,144	51,223

**3. SEGMENT INFORMATION**

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

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

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

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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 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:

<b>FOR THE THREE MONTHS ENDED MARCH 31, 2003</b>				
	<b>Small Business</b>	<b>Large Business</b>	<b>Corporate Activities</b>	<b>Consolidated Total</b>
(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 loss			(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

<b>FOR THE THREE MONTHS ENDED MARCH 31, 2002</b>				
	<b>Small Business</b>	<b>Large Business</b>	<b>Corporate Activities</b>	<b>Consolidated Total</b>
(In thousands)				
Net sales	\$39,348	\$37,375	\$	\$76,723
Restructuring charges			167	167
Acquisition costs			63	63
Operating income (loss)	15,496	20,312	(19,560)	16,248
Investment income			70	70
Other charges			(4,057)	(4,057)
Interest expense			4,414	4,414
Income (loss) before income taxes	15,496	20,312	(27,961)	7,847

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## 4. COMPREHENSIVE INCOME (LOSS)

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

	<b>FOR THE THREE MONTHS ENDED</b>	
	<b>MARCH 31, 2003</b>	<b>MARCH 31, 2002</b>
	<b>(In thousands)</b>	
Net income	\$6,855	\$4,866
Other comprehensive income:		
Unrealized gain from investments:		
Unrealized gains	24	1
Related tax expense	(9)	
	<u>          </u>	<u>          </u>
Net	15	1
	<u>          </u>	<u>          </u>
Interest rate swap agreement:		