

INFOUSA INC  
Form 10-Q  
November 09, 2005

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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, 2005 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 as 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

Indicate by check mark whether the registrant is a shell company (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.

**53,898,532 shares of Common Stock at November 4, 2005**

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infoUSA INC.  
FORM 10-Q  
FOR THE QUARTER ENDED  
September 30, 2005  
PART I  
FINANCIAL INFORMATION  
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**infoUSA INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share amounts)

	<b>September 30, 2005 (UNAUDITED)</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 7,203	\$ 10,404
Marketable securities	2,314	3,049
Trade accounts receivable, net of allowances of \$1,686 and \$1,394, respectively	40,236	51,707
List brokerage trade accounts receivable	25,028	19,635
Deferred income taxes	2,461	
Prepaid expenses	5,146	6,544
Deferred marketing costs	2,780	2,632
 Total current assets	 85,168	 93,971
 Property and equipment, net	 46,370	 42,537
Goodwill, net	303,221	298,708
Intangible assets, net	55,445	66,578
Other assets	13,147	7,642
	\$ 503,351	\$ 509,436
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 30,130	\$ 34,134
Accounts payable	13,354	21,268
List brokerage trade accounts payable	19,383	15,427
Accrued payroll expenses	18,637	15,917
Accrued expenses	6,874	7,028
Income taxes payable	4,639	3,730
Deferred income taxes		170
Deferred revenue	51,510	53,034
 Total current liabilities	 144,527	 150,708
 Long-term debt, net of current portion	 148,149	 162,092
Deferred income taxes	19,534	23,460
Other liabilities	1,701	1,701
 Stockholders' equity:		
	135	134

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Common stock, \$.0025 par value. Authorized 295,000,000 shares;  
53,898,532 shares issued and 53,648,767 outstanding at September 30,  
2005 and 53,555,331 shares issued and 53,177,737 outstanding at  
December 31, 2004

Paid-in capital	110,009	106,669
Retained earnings	82,629	69,770
Treasury stock, at cost, 249,765 shares held at September 30, 2005 and 377,594 held at December 31, 2004	(1,536)	(2,311)
Notes receivable from officers	(341)	(334)
Accumulated other comprehensive loss	(1,456)	(2,453)
Total stockholders' equity	189,440	171,475
	\$ 503,351	\$ 509,436

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</b>		<b>NINE MONTHS ENDED</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>(UNAUDITED)</b>		<b>(UNAUDITED)</b>	
Net sales	\$ 95,536	\$ 90,172	\$ 284,367	\$ 254,777
Costs and expenses:				
Database and production costs	26,381	27,634	79,354	76,318
Selling, general and administrative (excluding non-cash stock option compensation expense of \$0 and \$(45) for the three months and \$(289) and \$595 for the nine months ended September 30, 2005 and 2004, respectively)	45,094	43,046	135,615	123,246
Depreciation and amortization of operating assets	2,717	3,523	9,991	10,397
Amortization of intangible assets	4,596	4,409	13,469	11,471
Non-cash stock option compensation expense (benefit)		(45)	(289)	595
Litigation settlement charges	605		731	
Restructuring charges	929	766	2,549	2,388
Acquisition costs		79	354	321
Total operating costs and expenses	80,322	79,412	241,774	224,736
Operating income	15,214	10,760	42,593	30,041
Other income (expense):				
Investment income (loss)	400	(177)	2,794	(219)
Other income (charges)	56		56	(2,223)
Interest expense	(3,003)	(2,447)	(8,721)	(6,422)
Income before income taxes	12,667	8,136	36,722	21,177
Income taxes	4,578	3,091	13,219	8,047
Net income	\$ 8,089	\$ 5,045	\$ 23,503	\$ 13,130
<b>Basic earnings per share:</b>				
Basic earnings per share:	\$ 0.15	\$ 0.10	\$ 0.44	\$ 0.25
Weighted average shares outstanding:	54,132	53,005	53,878	52,630
<b>Diluted earnings per share:</b>				
Diluted earnings per share:	\$ 0.15	\$ 0.10	\$ 0.44	\$ 0.25
Weighted average shares outstanding:	54,169	53,317	54,029	53,123

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,	
	2005	2004
	(UNAUDITED)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 23,503	\$ 13,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating assets	9,991	10,397
Amortization of intangible assets	13,469	11,471
Amortization of deferred financing costs	432	203
Deferred income taxes	(1,976)	723
Tax benefit related to employee stock options		762
Non-cash stock option compensation expense (benefit)	(289)	595
Non-cash 401(k) contribution in common stock	1,427	1,146
(Gain) loss on sale of assets and marketable securities	(2,626)	275
Non-cash other charges		796
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	13,478	3,846
List brokerage trade accounts receivable	(5,410)	1,268
Prepaid expenses and other assets	(1,093)	(960)
Deferred marketing costs	(148)	2,836
Accounts payable	(8,031)	(4,311)
List brokerage trade accounts payable	3,965	(880)
Income taxes receivable and payable, net	(1,552)	261
Accrued expenses and other liabilities	1,038	4,233
 Net cash provided by operating activities	 46,178	 45,791
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sale of marketable securities	8,161	2,508
Purchase of marketable securities	(4,244)	(3,948)
Purchases of property and equipment	(4,110)	(3,721)
Acquisitions of businesses, net of cash acquired	(8,778)	(109,766)
Software and database development costs	(4,131)	(1,894)
 Net cash used in investing activities	 (13,102)	 (116,821)
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(54,293)	(195,613)
Proceeds of long-term debt	26,278	272,833
Deferred financing costs paid	(7)	(2,902)
Dividends paid	(10,646)	

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Proceeds from exercise of stock options	2,391	4,127
Net cash provided by (used in) financing activities	(36,277)	78,445
Net increase (decrease) in cash and cash equivalents	(3,201)	7,415
Cash and cash equivalents, beginning of period	10,404	2,686
Cash and cash equivalents, end of period	\$ 7,203	\$ 10,101
Supplemental cash flow information:		
Interest paid	\$ 8,670	\$ 6,208
Income taxes paid	\$ 16,030	\$ 6,053

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, 2004 included in the Company's 2004 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 common stock.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>(In thousands)</b>			
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Weighted average number of shares used in basic EPS	54,132	53,005	53,878	52,630
Net additional common stock equivalent shares outstanding after assumed exercise of stock options	37	312	151	493
Weighted average number of shares outstanding used in diluted EPS	54,169	53,317	54,029	53,123

**3. SEGMENT INFORMATION**

The Company currently reports financial information on two business segments.

The *infoUSA* Group (formerly known as the Small Business segment) uses the internet as the primary vehicle to license its sales leads, mailing lists, databases, and other database marketing services to small and medium size businesses, entrepreneurs, professionals, and sales executives.

The Donnelley Group (formerly known as the Large Business segment) provides e-mail marketing services, licensing of the *infoUSA* database, direct marketing services, database marketing services, and list brokerage and list management services to large businesses, i.e. businesses with 1,000 or more employees.

The *infoUSA* Group and Donnelley Group reflect actual net sales, order production costs, identifiable direct sales and marketing costs. The remaining indirect costs are presented as a consolidating item in corporate activities.

The Corporate Activities Group includes the compilation and constant updating of our proprietary databases, such as 15 million businesses, 183 million consumers, 3.1 million new homeowners, 14 million new movers, 2.6 million new business formations and other databases. They also include the cost for database verification, administrative functions of the Company and other identified gains and losses.

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.

Goodwill, net of accumulated amortization for the Donnelley Group segment increased from \$258.3 million at September 30, 2004 to \$262.1 million at September 30, 2005. The increase in goodwill is primarily due to the acquisition of @Once in January 2005.

The Company has changed the structure of its internal organization. Due to acquisition and realignment within the Company, one division has been moved from the Donnelley Group into the infoUSA Group in January, 2005. In accordance with SFAS 131, disclosures about

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segments of an enterprise, the Company has restated the results by segment for the quarter and year to date ended September 30, 2004 according to the current internal structure.

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 September 30, 2005</b>			
	<b>infoUSA</b>	<b>Donnelley</b>	<b>Corporate</b>	<b>Consolidated</b>
	<b>Group</b>	<b>Group</b>	<b>Activities</b>	<b>Total</b>
	<b>(In thousands)</b>			
Net sales	\$35,312	\$ 60,224	\$	\$ 95,536
Litigation settlement			(605)	(605)
Restructuring charges			(929)	(929)
Operating income (loss)	12,920	26,585	(24,291)	15,214
Investment income			400	400
Other income			56	56
Interest expense			(3,003)	(3,003)
Income (loss) before income taxes	12,920	26,585	(26,838)	12,667
Goodwill, net of amortization	41,155	262,066		303,221

	<b>For The Three Months Ended September 30, 2004</b>			
	<b>infoUSA</b>	<b>Donnelley</b>	<b>Corporate</b>	<b>Consolidated</b>
	<b>Group</b>	<b>Group</b>	<b>Activities</b>	<b>Total</b>
	<b>(In thousands)</b>			
Net sales	\$34,174	\$ 55,998	\$	\$ 90,172
Non-cash stock compensation benefit			45	45
Restructuring charges			(766)	(766)
Acquisition costs			(79)	(79)
Operating income (loss)	9,933	21,791	(20,964)	10,760
Investment (loss)			(177)	(177)
Interest expense			(2,447)	(2,447)
Income (loss) before income taxes	9,933	21,791	(23,588)	8,136
Goodwill, net of amortization	41,153	258,328		299,481

	<b>For The Nine Months Ended September 30, 2005</b>			
	<b>infoUSA</b>	<b>Donnelley</b>	<b>Corporate</b>	<b>Consolidated</b>
	<b>Group</b>	<b>Group</b>	<b>Activities</b>	<b>Total</b>
	<b>(In thousands)</b>			
Net sales	\$107,879	\$176,488	\$	\$284,367
Non-cash stock compensation benefit			289	289
Litigation settlement			(731)	(731)
Restructuring charges			(2,549)	(2,549)
Acquisition costs			(354)	(354)
Operating income (loss)	35,333	74,274	(67,014)	42,593
Investment income			2,794	2,794
Other income			56	56
Interest expense			(8,721)	(8,721)
Income (loss) before income taxes	35,333	74,274	(72,885)	36,722
Goodwill, net of amortization	41,155	262,066		303,221



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	<b>For The Nine Months Ended September 30, 2004</b>			
	<b>infoUSA Group</b>	<b>Donnelley Group</b>	<b>Corporate Activities</b>	<b>Consolidated Total</b>
	<b>(In thousands)</b>			
Net sales	\$ 114,282	\$ 140,495	\$	\$ 254,777
Non-cash stock compensation expense			(595)	(595)
Restructuring charges			(2,388)	(2,388)
Acquisition costs			(321)	(321)
Operating income (loss)	36,164	61,076	(67,199)	30,041
Investment (loss)			(219)	(219)
Other charges			(2,223)	(2,223)
Interest expense			(6,422)	(6,422)
Income (loss) before income taxes	36,164	61,076	(76,063)	21,177
Goodwill, net of amortization	41,153	258,328		299,481

**4. COMPREHENSIVE INCOME (LOSS)**

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

	<b>For The Three Months Ended</b>		<b>For The Nine Months Ended</b>	
	<b>September 30, 2005</b>	<b>September 30, 2004</b>	<b>September 30, 2005</b>	<b>September 30, 2004</b>
	<b>(In thousands)</b>		<b>(In thousands)</b>	
Net income	\$ 8,089	\$ 5,045	\$ 23,503	\$ 13,130
Other comprehensive income:				
Unrealized gain (loss) from investments:				
Unrealized gains (losses)	(594)	(655)	531	(845)
Related tax benefit (expense)	214	249	(191)	321
Net	(380)	(406)	340	(524)
Foreign currency translation adjustments:				
Unrealized gains (losses)	22	(36)	528	(36)
Related tax expense				