INFOUSA INC
Form 10-Q
November 09, 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 September 30, 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 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 [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.

53,452,881 shares of Common Stock at October 20, 2004 infoUSA INC.

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infoUSA INC.

FORM 10-Q

FOR THE QUARTER ENDED

September 30, 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)**

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (UNAUDITED) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,101 | $ 2,686 |
| Marketable securities | 2,740 | 3,685 |
| Trade accounts receivable, net of allowances of $1,586 and $2,492, respectively | 46,960 | 40,922 |
| List brokerage trade accounts receivable | 21,280 | 12,844 |
| Income taxes receivable | 2,461 | 1,046 |
| Prepaid expenses | 8,715 | 4,985 |
| Deferred marketing costs | 2,621 | 5,457 |
| Total current assets | 94,878 | 71,625 |
| Property and equipment, net | 43,452 | 40,984 |
| Goodwill, net | 299,480 | 202,386 |
| Intangible assets, net | 70,681 | 45,223 |
| Other assets | 8,400 | 6,128 |
| | $ 516,891 | $ 366,346 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Current portion of long-term debt | $ 32,894 | $ 17,280 |
| Accounts payable | 16,373 | 16,212 |
| List brokerage trade accounts payable | 16,914 | 9,516 |
| Accrued payroll expenses | 16,812 | 17,793 |
| Accrued expenses | 6,964 | 824 |
| Deferred income taxes | 3,714 | 3,241 |
| Deferred revenues | 44,119 | 19,824 |
| Total current liabilities | 137,790 | 84,690 |

| | | |
|---|---|---|
| Long-term debt, net of current portion | 187,704 | 122,485 |
| Deferred income taxes | 24,587 | 8,553 |
| Deferred revenue | | 3,000 |
| Other liabilities | 1,397 | 1,397 |
| Commitments and contingencies | | |
| Stockholders equity: | | |
| Common stock, $.0025 par value. Authorized 295,000,000 shares; 53,442,026 shares issued and 53,027,874 outstanding at September 30, 2004 and 52,808,835 shares issued and 52,271,323 outstanding at December 31, 2003 | 134 | 132 |
| Paid-in capital | 105,362 | 99,447 |
| Retained earnings | 65,062 | 51,932 |
| Treasury stock, at cost, 414,152 shares held at September 30, 2004 and 537,512 held at December 31, 2003 | (2,531) | (3,247) |
| Notes receivable from officers | (336) | (325) |
| Accumulated other comprehensive loss | (2,278) | (1,718) |
| Total stockholders equity | 165,413 | 146,221 |
| | $ 516,891 | $ 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 September 30, | | NINE MONTHS ENDED September 30, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| | (UNAUDITED) | | (UNAUDITED) | |
| Net sales | $90,172 | $77,379 | $254,777 | $232,290 |
| Costs and expenses: | | | | |
| Database and production costs | 27,634 | 21,416 | 76,318 | 64,556 |
| Selling, general and administrative (excluding non-cash stock option compensation expense of $(45) and $76 for the three months and $595 and $145 for the nine months ended September 30, 2004 and 2003, respectively) | 43,046 | 36,827 | 123,246 | 103,825 |
| Depreciation and amortization of operating assets | 3,523 | 3,696 | 10,397 | 11,254 |
| Amortization of intangible assets | 4,409 | 3,310 | 11,471 | 9,960 |
| Non-cash stock option compensation | (45) | 76 | 595 | 145 |
| Litigation settlement charge | | 1,667 | | 1,667 |
| Restructuring charges | 766 | 645 | 2,388 | 1,630 |
| Acquisition costs | 79 | | 321 | 54 |
| Total operating costs and expenses | 79,412 | 67,637 | 224,736 | 193,091 |
| Operating income | 10,760 | 9,742 | 30,041 | 39,199 |
| Other income (expense): | | | | |
| Investment income (loss) | (177) | 394 | (219) | 1,222 |
| Other charges | | (2,240) | (2,223) | (6,385) |
| Interest expense | (2,447) | (2,243) | (6,422) | (9,500) |
| Other expense, net | (2,624) | (4,089) | (8,864) | (14,663) |
| Income before income taxes | 8,136 | 5,653 | 21,177 | 24,536 |
| Income taxes | 3,091 | 2,021 | 8,047 | 9,324 |
| Net income | $ 5,045 | $ 3,632 | $ 13,130 | $ 15,212 |
| Basic earnings per share: | $ 0.10 | $ 0.07 | $ 0.25 | $ 0.30 |

| | | | | |
|---|---|---|---|---|
| Diluted earnings per share: | $ 0.10 | $ 0.07 | $ 0.25 | $ 0.30 |

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

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**infoUSA INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(in thousands)**

| | NINE MONTHS ENDED September 30, | |
|---|---|---|
| | **2004** | **2003** |
| | (UNAUDITED) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 13,130 | $ 15,212 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of operating assets | 10,397 | 11,254 |
| Amortization of intangible assets | 11,471 | 9,960 |
| Amortization of deferred financing costs | 203 | 539 |
| Deferred income taxes | 723 | 4,304 |
| Tax benefit related to employee stock options | 762 | |
| Non-cash stock option compensation expense | 595 | 145 |
| Non-cash 401(k) contribution in common stock | 1,146 | 1,028 |
| (Gain) loss on sale of assets | 275 | (860) |
| Non-cash other charges | 796 | 2,482 |
| Changes in assets and liabilities, net of effect of acquisitions: | | |
| Trade accounts receivable | 3,846 | 6,727 |
| List brokerage trade accounts receivable | 1,268 | 4,014 |
| Prepaid expenses and other assets | (960) | (5,185) |
| Deferred marketing costs | 2,836 | (1,853) |
| Accounts payable | (4,311) | (533) |
| List brokerage trade accounts payable | (880) | (4,179) |
| Income taxes receivable and payable, net | 261 | (4,726) |
| Accrued expenses and other liabilities | 4,233 | (785) |
| Net cash provided by operating activities | 45,791 | 37,544 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Sale of other investments | 2,508 | 1,628 |
| Purchase of other investments | (3,948) | (626) |
| Purchases of property and equipment | (3,721) | (4,657) |
| Acquisitions of businesses, net of cash acquired | (109,766) | (5,494) |
| Software and database development costs | (1,894) | (743) |
| Net cash used in investing activities | (116,821) | (9,892) |

| | | |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of long-term debt | (195,613) | (137,041) |
| Proceeds of long-term debt | 272,833 | 100,000 |
| Deferred financing costs paid | (2,902) | (141) |
| Proceeds from repayment of officer loan | | 496 |
| Proceeds from exercise of stock options | 4,127 | 5,890 |
| Net cash used in financing activities | 78,445 | (30,796) |
| Net increase (decrease) in cash and cash equivalents | 7,415 | (3,144) |
| Cash and cash equivalents, beginning of period | 2,686 | 6,285 |
| Cash and cash equivalents, end of period | $ 10,101 | $ 3,141 |
| Supplemental cash flow information: | | |
| Interest paid | $ 6,208 | $ 8,390 |
| Income taxes paid | $ 6,053 | $ 9,904 |

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. That report includes a summary of our critical accounting policies. There have been no material changes in the accounting policies followed by us during fiscal 2004.

The preparation of financial statements in conformity with GAAP requires our management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as reported amounts of revenues and expenses during the reporting period. 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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | (In Thousands) | | | |
| | 2004 | 2003 | 2004 | 2003 |
| Weighted average number of shares used in basic EPS | 53,005 | 51,676 | 52,630 | 51,351 |
| Net additional common stock equivalent shares outstanding after assumed exercise of stock options | 312 | 681 | 493 | 102 |
| Weighted average number of shares outstanding used in diluted EPS | 53,317 | 52,357 | 53,123 | 51,453 |

3. SEGMENT INFORMATION

The Company currently reports financial information on two business segments.

The *info*USA Group (formerly known as the Small Business segment) licenses its sales leads, mailing lists, databases, and other database marketing services to small and medium size businesses, entrepreneurs, professionals, and sales executives. This segment also includes the sale of our database content on the Internet.

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

The *info*USA 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 reconciling item in corporate activities.

The corporate activities group includes the compilation of our proprietary databases, such as 14 million businesses, 220 million consumers, 5.2 million new homeowners, 17.0 million new movers, 2.6 million new business formations and other databases. They also include the cost for database verification, administrative function of the company and other identified gains (losses).

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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.

Goodwill, net of accumulated amortization for the Donnelley Group segment increased from $174.2 million at September 30, 2003 to $258.3 million at September 30, 2004. The increase in goodwill is due to the acquisition of Triplex in February 2004, OneSource in June 2004 and Edith Roman in June 2004.

The Company has no intercompany sales or intercompany expense transactions. Accordingly, there are no adjustments necessary to eliminate amounts between the Company s segments. The following table summarizes segment information:

| | For The Three Months Ended September 30, 2004 | | | |
|---|---|---|---|---|
| | infoUSA Group | Donnelley Group | Corporate Activities | Consolidated Total |
| | (In thousands) | | | |
| Net sales | $32,814 | $ 57,358 | $ | $ 90,172 |
| Non-cash stock compensation | | | 45 | 45 |
| Restructuring charges | | | (766) | (766) |
| Acquisition costs | | | (79) | (79) |
| Operating income (loss) | 9,789 | 21,596 | (20,625) | 10,760 |
| Investment loss | | | (177) | (177) |
| Interest expense | | | (2,447) | (2,447) |
| Income (loss) before income taxes | 9,789 | 21,596 | (23,249) | 8,136 |
| Goodwill, net of amortization | 41,152 | 258,328 | | 299,480 |

| | For The Three Months Ended September 30, 2003 | | | |
|---|---|---|---|---|
| | infoUSA Group | Donnelley Group | Corporate Activities | Consolidated Total |
| | (In thousands) | | | |
| Net sales | $37,902 | $ 39,477 | $ | $ 77,379 |
| Non-cash stock compensation | | | (76) | (76) |
| Litigation settlement charge | | | (1,667) | (1,667) |
| Restructuring charges | | | (645) | (645) |
| Operating income (loss) | 10,423 | 20,009 | (20,690) | 9,742 |
| Investment income | | | 394 | 394 |
| Other charges | | | (2,240) | (2,240) |
| Interest expense | | | (2,243) | (2,243) |
| Income (loss) before income taxes | 10,423 | 20,009 | (24,779) | 5,653 |
| Goodwill, net of amortization | 41,152 | 174,234 | | 215,386 |

| | For The Nine Months Ended September 30, 2004 | | | |
|---|---|---|---|---|
| | infoUSA Group | Donnelley Group | Corporate Activities | Consolidated Total |

| | | | | |
|---|---|---|---|---|
| | | (In thousands) | | |
| Net sales | $111,104 | $143,673 | $ | $254,777 |
| Non-cash stock compensation | | | (595) | (595) |
| Restructuring charges | | | (2,388) | (2,388) |
| Acquisition costs | | | (321) | (321) |
| Operating income (loss) | 35,597 | 59,614 | (65,170) | 30,041 |
| Investment loss | | | (219) | (219) |
| Other charges | | | (2,223) | (2,223) |
| Interest expense | | | (6,422) | (6,422) |
| Income (loss) before income taxes | 35,597 | 59,614 | (74,034) | 21,177 |
| Goodwill, net of amortization | 41,152 | 258,328 | | 299,480 |

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| | For The Nine Months Ended September 30, 2003 | | | |
|---|---|---|---|---|
| | infoUSA Group | Donnelley Group | Corporate Activities | Consolidated Total |
| | (In thousands) | | | |
| Net sales | $117,556 | $114,734 | $ | $232,290 |
| Non-cash stock compensation | | | (145) | (145) |
| Litigation settlement charge | | | (1,667) | (1,667) |
| Restructuring charges | | | (1,630) | (1,630) |
| Acquisition costs | | | (54) | (54) |
| Operating income (loss) | 41,006 | 57,365 | (59,172) | 39,199 |
| Investment income | | | 1,222 | 1,222 |
| Other charges | | | (6,385) | (6,385) |
| Interest expense | | | (9,500) | (9,500) |
| Income (loss) before income taxes | 41,006 | 57,365 | (73,835) | 24,536 |
| Goodwill, net of amortization | 41,152 | 174,234 | | 215,386 |

4. COMPREHENSIVE INCOME (LOSS)

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

| | For The Three Months Ended | | For The Nine Months Ended | |
|---|---|---|---|---|
| | Sept. 30, 2004 | Sept. 30, 2003 | Sept. 30, 2004 | Sept. 30, 2003 |
| | (In thousands) | | (In thousands) | |
| Net income | $5,045 | $ 3,632 | $13,130 | $15,212 |
| Other comprehensive income: | | | | |
| Unrealized gain from investments: | | | | |
| Unrealized gains (losses) | (655) | (57) | (845) | 136 |
| Related tax expense | 249 | 22 | 321 | (52) |
| Net | (406) | (35) | (524) | 84 |
| Foreign currency translation adjustments: | | | | |
| Unrealized losses | (36) | | (36) | |
| Pension plan: | | | | |
| Unrealized losses | | (1,397) | | (1,397) |

| | | | | |
|---|---|---|---|---|
| Total other comprehensive loss | (442) | (1,432) | (560) | (1,313) |
| Comprehensive income | $4,603 | $ 2,200 | $12,570 | $13,899 |

The components of accumulated other comprehensive loss are as follows:

| | Unrealized Losses Pension plan | Foreign Currency Translation Adjustments | Unrealized Losses On Securities | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| | | (in thousands) | | |
| Balance at September 30, 2004 | $(866) | $(708) | $(704) | $(2,278) |
| Balance at December 31, 2003 | $(866) | $(672) | $(180) | $(1,718) |

5. ACQUISITIONS

On February 2, 2004, the Company acquired all the issued and outstanding common stock of Triplex Direct Marketing Corp. ( Triplex ), a provider of direct marketing and database marketing services to nonprofit and catalog customers. The total purchase price was $7.9 million including acquisition costs of $0.3 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 $5.7 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.

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On June 4, 2004, the Company acquired all the issued and outstanding common stock of Edith Roman Associates, Inc., Database Direct, Inc. and E-Post Direct, Inc. (collectively Edith Roman ), a provider of list brokerage and list management services, data processing services and email marketing services. The total purchase price was $13.4 million including acquisition costs of $0.2 million, of which, $6.6 million was payable in cash at closing and the remaining $6.6 million represented as a note payable in the accompanying consolidated balance sheet will be payable on June 4, 2005. The transaction is subject to purchase price adjustment represented by an adjustment for finalized working capital, net sales and other contingent items specified within the purchase agreement. The purchase price for the acquisition has been preliminarily allocated to current assets of $11.5 million, property and equipment of $0.5 million, current liabilities of $9.6 million, other liabilities of $0.5 million and goodwill of $11.5 million. The acquisition has been accounted for under the purchase method of accounting, and accordingly, the operating results of Edith Roman have been included in the Company s financial statements since the date of acquisition.

On June 9, 2004, the Company acquired all the issued and outstanding common stock of OneSource Information Services, Inc. ( OneSource ). OneSource offers a global database of over 1.7 million of the largest businesses worldwide. This database is deep in content. It also includes financial information and other public information. OneSource s primary products, the OneSource® Business BrowserSM products, are password-protected, subscription-based products that provide sales, marketing, finance, and management professionals and consultants with industry and company profiles, research reports, media accounts, executive listings and biographies, and financial information on over 1.7 million public and private companies. OneSource customers access this information over the Internet using standard Web browsers.

The total purchase price was $109.4 million, comprised of cash paid for the outstanding common stock of OneSource of $104.6 million, a merger agreement termination fee associated with the acquisition of $3.0 million and acquisition-related costs of $1.8 million. Additionally, the Company paid $2.2 million for bank financing fees associated with the transaction recorded as deferred financing costs. The purchase price for the acquisition has been preliminarily allocated to current assets of $28.2 million, property and equipment of $5.6 million, other assets of $1.5 million, current liabilities of $19.0 million (including $13.7 million of deferred revenue), other liabilities of $17.8 million and goodwill and other intangibles of $109.1 million. Goodwill and other identified intangibles include: developed technology of $9.0 million (life of 5 years), Corptech database of $2.6 million (life of 3 years), customer lists of $16.3 million (life of 6 years), tradenames and trademarks of $3.5 million (life of 20 years) and goodwill of $77.7 million. The acquisition has been accounted for under the purchase method of accounting, and accordingly, the operating results of OneSource have been included in the Company s financial statements since the date of acquisition.

In connection with the preliminary purchase price allocation for OneSource, the Company recorded deferred revenue of $13.7 million, which is less than the carrying value recorded by OneSource at the time of the acquisition. In accordance with EITF Issue 01-03 *Accounting in a Purchase Business Combination for Deferred Revenue of an Acquiree* , the Company recorded deferred revenue at the fair value of the assumed liability for fulfillment of customer obligations plus a normal profit margin.

Assuming Triplex, OneSource and Edith Roman had been acquired on January 1, 2003 and included in the accompanying consolidated statements of operations, unaudited pro forma consolidated net sales, net income and net income per share would have been as follows:

| | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | **September 30, 2004** | **September 30, 2003** | **September 30, 2004** | **September 30, 2003** |

| | | | | |
|---|---|---|---|---|
| | (In thousands, except per share amounts) (unaudited) | | | |
| Net sales | $90,172 | $94,048 | $285,895 | $283,411 |
| Net income | $ 5,045 | $ 1,707 | $ 6,805 | $ 7,298 |
| Basic earnings per share | $ 0.10 | $ 0.03 | $ 0.13 | $ 0.14 |
| Diluted earnings per share | $ 0.10 | $ 0.03 | $ 0.13 | $ 0.14 |

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

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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 A loan with a maturity date of March 2009 and a $50.0 million revolving line of credit with a maturity date of March 2007.

On June 4, 2004, the Company negotiated an amended and restated Senior Secured Credit Facility (the Credit Facility ) administered by Wells Fargo Bank, N.A. in conjunction with the acquisition of OneSource. The Credit Facility provides for a new $80.0 million Term B loan with a maturity date of June 2010.

The Credit Facility provides for grid-based interest pricing based upon the Company s consolidated total leverage ratio and ranges from base rate plus 1.00% to 1.75% for base rate loans and LIBOR plus 2.00% to 2.75% for use of the revolving credit facility. The term loans interest rates range from base rate plus 1.50% to 2.00% or LIBOR plus 2.50% to 3.00%. Substantially all of the assets of the Company are pledged as security under the terms of the Credit Facility. At September 30, 2004, the Term A loan had a balance of $110.0 million bearing an interest rate of 4.17%, the Term B loan had a balance of $79.8 million bearing an interest rate of 4.63% and $39.6 million was available under the revolving line of credit.

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. The Company is in compliance with all restrictive covenants in the Credit Facility.

7. NON-CASH STOCK COMPENSATION EXPENSE

At September 30, 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 September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| | **(in thousands, except per share amounts)** | | **(in thousands, except per share amounts)** | |
| Net income, as reported | $5,045 | $3,632 | $13,130 | $15,212 |
| Less: Total stock-based employee compensation expense determined under fair value based method, net of taxes | 584 | 527 | 1,869 | 1,747 |
| Net income, pro forma | $4,461 | $3,105 | $11,261 | $13,465 |

| | | | | |
|---|---|---|---|---|
| Earnings per share: | | | | |
| Basic as reported | $ 0.10 | $ 0.07 | $ 0.25 | $ 0.30 |
| Basic pro forma | $ 0.08 | $ 0.06 | $ 0.21 | $ 0.26 |
| Diluted as reported | $ 0.10 | $ 0.07 | $ 0.25 | $ 0.30 |
| Diluted pro forma | $ 0.08 | $ 0.06 | $ 0.21 | $ 0.26 |

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

The fair value of the weighted average of option grants is estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants in 2004: volatility of 69.48%, dividend yield of 0%, risk free interest rate of 3.92% 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.

The Company previously granted non-qualified stock options to non-employee consultants of the Company in connection with consulting agreements executed by the Company. The options vest evenly over four years and have a five-year life. The fair value of the options were estimated, as of the grant date, using the Black-Scholes option pricing model and are updated at each balance sheet date. As such, the Company has recorded a non-cash charge of $595 thousand and $145 thousand related to stock options granted to the consultants during the nine months ended September 30, 2004 and 2003, respectively. The charges were recorded as an addition to paid-in capital.

8. RESTRUCTURING CHARGES

During the quarter ended September 30, 2004, the Company recorded restructuring charges due to workforce reductions of $766 thousand. The charges included involuntary employee separation costs (severance) for 69 employees in administration, information technology, order production and sales. During the nine months ended September 30, 2004, the Company recorded restructuring charges totaling $2.4 million for 356 employees. During the nine months ended September 30, 2004, the Company recorded $1.3 million of severance liabilities in conjunction with the acquisition of OneSource and Edith Roman in June 2004 that was included in the determination of purchase price for each of these acquisitions.

During the quarter ended September 30, 2003, the Company recorded restructuring charges due to workforce reductions of $645 thousand. The charges included involuntary employee separation costs for 64 employees in administration, sales support and marketing functions. During the nine months ended September 30, 2003, the Company recorded restructuring charges totaling $1.6 million for 179 employees.

The following table summarizes activity related to the restructuring charges recorded by the Company during the nine months ended September 30, 2004, including the liability accrual balances:

| | **December 31, 2003** | **Amounts expensed** | **Amounts recorded as part of acquisitions** | **Amounts paid** | **Sept. 30, 2004** |
|---|---|---|---|---|---|
| | | | **(In thousands)** | | |
| Restructuring accrual | $ 247 | $2,388 | $ 1,277 | $3,005 | $ 907 |

9. ACQUISITION COSTS

The Company recorded costs of $79 thousand and $0 thousand during the quarter ended September 30, 2004 and 2003, respectively, and costs of $321 thousand and $54 thousand during the nine months ended September 30, 2004 and 2003, respectively, for general and administrative expenses incurred in connection with the integration of acquired companies and for costs associated with potential acquisition efforts. These costs are not direct costs of acquisition and therefore cannot be capitalized as part of the purchase price of the acquisitions.

10. OTHER CHARGES

During the nine months ended September 30, 2004, the Company wrote-off deferred financing costs of $0.1 million related to the prior credit facility as a result of the financing on March 25, 2004 of the Credit Facility described in Note 6.

During the nine months ended September 30, 2004, the Company redeemed the remainder of its outstanding 9 1/2% Senior Subordinated Notes of $30.0 million at a premium of 4.75% to face amount. The premium paid on the redemption was $1.5 million, representing amounts paid in excess of the carrying value of the debt. As part of the redemption, the Company recorded charges of $0.6 million for net unamortized debt issue costs related to the Senior Subordinated Notes.

During the nine months ended September 30, 2003, the Company purchased $67.0 million of its 9 1/2% Senior Subordinated Notes of which $11.5 million were from the Chief Executive Officer. All purchases of 9 1/2% Senior Subordinated Notes occurred at the same price and under the same terms. As part of these purchases, the Company recorded charges of $1.6 million for related net unamortized debt issue costs and $3.1 million for amounts paid in excess of the carrying value of the debt.

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During the nine months ended September 30, 2003, the Company expensed $0.8 million for net unamortized debt issue costs and $0.8 million in bank fees associated with the refinancing of the credit facility.

11. GOODWILL AND OTHER INTANGIBLE ASSETS

Intangible assets consist of the following:

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (In thousands) | |
| Goodwill | $358,492 | $261,398 |
| Less accumulated amortization | 59,012 | 59,012 |
| | $299,480 | $202,386 |
| Other intangible assets: | | |
| Non-compete agreements | 13,534 | 13,534 |
| Core technology | 13,753 | 4,800 |
| Customer base | 24,633 | 8,372 |
| Trade names | 19,259 | 15,815 |
| Purchased data processing software | 73,478 | 73,478 |
| Acquired database costs | 21,591 | 19,000 |
| Perpetual software license agreement, net | 2,333 | 2,933 |
| Software development costs, net | 5,628 | 2,128 |
| Database development costs, net | 392 | 149 |
| Deferred financing costs | 11,122 | 8,216 |
| | 185,753 | 148,425 |
| Less accumulated amortization | 115,072 | 103,202 |
| | $ 70,681 | $ 45,223 |

12. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | September 30, 2004 | December 31, 2003 |
|---|---|---|
| | (In thousands) | |
| Property and equipment | $133,687 | $122,320 |

| | | |
|---|---|---|
| Less accumulated depreciation and amortization | 90,235 | 81,336 |
| | $ 43,452 | $ 40,984 |

13. CONTINGENCIES

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

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ITEM 2.

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

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 statements or such factors.

GENERAL

**Overview**

*Products and Services*

*info*USA is the leading compiler of several proprietary databases. To name a few, they are as follows:

1. 14 Million US and Canadian Businesses

2. 220 Million US and Canadian Residents

3. 60 Million Homeowners

4. 17 Million New Movers per year

5. 2.6 Million New Businesses per year

6. 5.2 Million New Homeowners per year

7. 3.2 Million Executives

8. 575,000 Doctors

All of the above databases are compiled under one roof in Papillion, Nebraska. We employ over 600 full time people to compile and update the databases from thousands of public sources such as yellow pages, white pages, newspapers, incorporation records, real estate deed transfers and various other sources.

For the business database, we make over 20 million phone calls a year to verify the name of the owner or key executive, their address, number of employees, number of PC s, fax numbers, e-mail addresses and other information.

The databases change by roughly 65% per year. We spend over $50 million a year to update these databases regularly. We believe that we have the finest and most accurate databases in the industry. We believe there is no other company that compiles and updates so many databases all under one roof.

We have also developed proprietary software for direct marketing applications, database marketing applications, e-mail marketing applications, telemarketing applications and other sophisticated modeling applications. Our proprietary software enhances the value of our databases to the customer.

*Distribution Strategy*

infoUSA has over 4 million customers who have used our products and services. The principal use of our databases is to find new customers and grow their sales. That is why the logo of *info*USA bears the mark  Sales Solutions  .

For our large clients, we distribute our databases and services through the Donnelley Group. Donnelley Marketing, the flagship Company within the Donnelley Group, was acquired by infoUSA in 1999, and has been a leader in this space since 1917. The Donnelley Group has a sales force of over 200 account executives that call on Fortune 1000 companies. These clients have a sophisticated need for databases, database marketing, and now e-mail marketing. Under the Donnelley Group we have seven different companies that specialize in their own respective markets. These companies are Donnelley Marketing, Walter Karl, Edith Roman, Catalog Vision, Triplex, Yesmail and OneSource. OneSource is the only company, which has a true global database of large businesses. This database is used by multinational companies for market research, prospect development and other modeling and research applications.

*info*USA has an extensive distribution channel into medium sized businesses, small businesses, small office/home office (SOHO) markets and sales executives. We sell directly to these markets. We employ several distribution channels such as direct mail, telemarketing, e-mail marketing, and our own sales force. We have over 600 account executives that have developed a relationship with these clients.

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*Subscription Sales Model*

In the past, *info*USA sold sales leads and mailing lists on an as needed basis. We realized that our customers need this information every day. We developed a new service called Sales Genie for the small business market. This is an internet based database delivery service. All of our databases can be accessed on a subscription basis for a flat price of $250.00 per month. Sales Genie also has a basic contact management software and mapping ability. A small business can get all the sales leads and mailing lists for only $250.00 per month.

We have also developed SalesLeadsUSA for one person businesses and sales executives. This service offers databases with limited search criteria but still offers unlimited sales leads and mailing lists for $75.00 per month.

The Company also launched an unlimited business credit report service called Credit.net. A customer can obtain unlimited business credit reports for only $50.00 per month.

This migration from one time sales to subscription based sales has enabled us to have a better relationship with our customers, more predictable revenue and the ability to offer more services to our customers in the arena of sales solutions.

*Financial Performance*

Operating income for the nine months ended September 30, 2004 was $30.0 million, or 12% of net sales, down from $39.2 million, or 17% of net sales, for the same period in 2003. The primary reasons for the decline in operating income were (i) higher sales and marketing expenditures in the first half of 2004 versus last year and (ii) deferral of approximately $5.2 million of revenues in the third quarter due to accounting for subscription products.

*Mergers and Acquisitions*

Internal revenue growth is the primary objective of the Company. However, we still look for strategic acquisitions, which are opportunistic in nature. We like to acquire companies where we can get better than 25% operating margin. During 2002 and 2003, the Company acquired DoubleClick s email deployment business, ClickAction®, Yesmail® and Markado®. As described in the notes to the accompanying financial statements, the Company acquired the following entities in 2004: (i) Triplex, a provider of direct marketing and database marketing services to nonprofit and catalog customers; (ii) Edith Roman®, a provider of list brokerage and list management services, data processing services and email marketing services; and (iii) OneSource, a provider of a global database of over 1.7 million of the largest business worldwide. This database is deep in content and includes financial information and other public information.

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 Sept. 30, 2004** | **THREE MONTHS ENDED Sept. 30, 2003** | **NINE MONTHS ENDED Sept. 30, 2004** | **NINE MONTHS ENDED Sept. 30, 2003** |
|---|---|---|---|---|
| **CONSOLIDATED STATEMENT OF OPERATIONS DATA:** | | | | |
| Net sales | 100% | 100% | 100% | 100% |
| Costs and expenses: | | | | |
| Database and production costs | 31 | 28 | 30 | 28 |
| Selling, general and administrative | 48 | 47 | 48 | 44 |
| Depreciation | 4 | 5 | 4 | 5 |
| Amortization | 5 | 4 | 5 | 4 |
| Non-cash stock compensation expense | | | | |
| Litigation settlement charge | | 2 | | 1 |
| Restructuring charges | 1 | 1 | 1 | 1 |
| Acquisition costs | | | | |
| Total costs and expenses | 88 | 87 | 88 | 83 |
| Operating income | 12 | 13 | 12 | 17 |
| Other expense, net | (3) | (5) | (3) | (6) |
| Income before income taxes | 9 | 7 | 9 | 11 |
| Income taxes | 3 | 2 | 3 | 4 |
| Net income | 6% | 5% | 6% | 7% |

**OTHER DATA:**

| | **(in thousands)** | | **(in thousands)** | |
|---|---|---|---|---|
| SALES BY SEGMENT: | | | | |
| infoUSA Group | $32,814 | $37,902 | $111,104 | $117,556 |
| Donnelley Group | 57,358 | 39,477 | 143,673 | 114,734 |

| | | | | |
|---|---|---|---|---|
| Total | $90,172 | $77,379 | $254,777 | $232,290 |
| SALES BY SEGMENT AS A PERCENTAGE OF NET SALES: | | | | |
| infoUSA Group | 36% | 49% | 44% | 51% |
| Donnelley Group | 64 | 51 | 56 | 49 |
| Total | 100% | 100% | 100% | 100% |

*Net sales*

Net sales for the quarter ended September 30, 2004 were $90.2 million, an increase of 17% from $77.4 million for the same period in 2003. Net sales for the nine months ended September 30, 2004 were $254.8 million, an increase of 10% from $232.3 million for the same period in 2003.

Net sales of the *info*USA Group segment for the quarter ended September 30, 2004 were $32.8 million, a 13% decrease from $37.9 million for the same period in 2003. Net sales of the infoUSA Group segment for the nine months ended September 30, 2004 were $111.1 million, a 6% decrease from $117.6 million for the same period in 2003. The decrease in net sales is principally due the deferral of revenue totaling $5.2 million during the quarter and nine month period ended September 30, 2004 related to the sale of subscription-based products.

The infoUSA Group segment principally engages in the selling of sales lead generation and consumer DVD products to small to medium sized businesses, small office and home office businesses and individual consumers. This segment also includes the sale of content via the Internet. Historically, this group has principally offered one-time sales leads products, although the group continues to migrate a growing number of customers to subscription-based products. During the quarter ended September 30, 2004, the Company began to sell subscription products and to defer the revenues associated with the sale of these subscription-based products. Conversions from one-time sales to this subscription format will cause this group to experience short-term reductions in reported revenue due to the deferred revenue recognition practices associated with the sale of these types of products. Sales of subscription-based products require the Company to recognize revenues over the subscription period instead of at the time of sale.

Net sales of the Donnelley Group segment for the quarter ended September 30, 2004 were $57.4 million, a 45% increase from $39.5 million for the same period in 2003. Net sales of the Donnelley Group segment for the nine months ended September 30, 2004 were $143.7 million, a 25% increase from $114.7 million for the same period in 2003. The increase was principally due to the acquisition of Triplex in February 2004 and Edith Roman and OneSource in June 2004. The Donnelley Group segment principally engages in the selling of data processing services, Web-based business and financial information products and services, licensed databases, database marketing solutions, e-mail marketing solutions and list brokerage and list management services to large companies. This segment includes the licensing of databases for Internet directory assistance services.

*Database and production costs*

Database and production costs for the quarter ended September 30, 2004 were $27.6 million, or 31% of net sales, compared to $21.4 million, or 28% of net sales for the same period in 2003. Database and production costs for the nine months ended September 30, 2004 were $76.3 million, or 30% of net sales, compared to $64.6 million, or 28% of net sales for the same period in 2003. The increase in database and production costs principally relates to the acquisition of Triplex in February 2004 and OneSource in June 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 September 30, 2004 were $43.0 million, or 48% of net sales, compared to $36.8 million, or 47% of net sales for the same period in 2003. Selling, general and administrative expenses for the nine months ended September 30, 2004 were $123.2 million, or 48% of net sales, compared to $103.8 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 due to the acquisition of companies during 2004 including Triplex, Edith Roman and OneSource. 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 September 30, 2004 was $3.5 million, or 4% of net sales, compared to $3.7 million, or 5% of net sales for the same period in 2003. Depreciation expense for the nine months ended September 30, 2004 was $10.4 million, or 4% of net sales, compared to $11.3 million, or 5% of net sales for the same period in 2003.

*Amortization expense*

Amortization expense for the quarter ended September 30, 2004 was $4.4 million, or 5% of net sales, compared to $3.3 million, or 4% of net sales for the same period in 2003. Amortization expense for the nine months ended

September 30, 2004 was $11.5 million, or 5% of net sales, compared to $10.0 million, or 4% of net sales, for the same period in 2003. Amortization expense is expected to increase as a percentage of net sales as identified intangible assets recorded as part of the acquisition of OneSource totaling $31.3 million will be amortized. The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets, as of January 1, 2002. SFAS No. 142 requires the Company to complete an annual impairment test on goodwill and other intangible assets with an indefinite life rather than record amortization expense on those assets. The Company last 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 September 30, 2004, the Company recorded non-cash charges of $(45) thousand, compared to $76 thousand for the same period in 2003. During the nine months ended September 30, 2004, the Company recorded non-cash charges of $595 thousand, compared to $145 thousand for the same period in 2003. These charges represent non-cash stock compensation

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expense related to non-employee consulting agreements. The Company will incur additional non-cash compensation expense for these consultants 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 and interest rates.

*Litigation settlement charge*

On May 14, 2002, a principal of one of the acquisitions made by the Company in 1996 was awarded $1.7 million by an arbitrator for settlement of a dispute regarding exercise of stock options issued by the Company. During the quarter ended September 30, 2003, the Company determined that it was not likely to be successful in its appeal of the dispute and recorded a settlement charge of $1.7 million.

*Restructuring costs*

The Company recorded restructuring charges (severance) during the quarters ended September 30, 2004 and 2003 of $0.8 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. Restructuring charges recorded during the nine months ended September 30, 2004 and 2003 were $2.4 million and $1.6 million, respectively. The workforce reduction charges included involuntary employee separation costs during the nine months ended September 30, 2004 and 2003 for approximately 356 and 179 employees, respectively.

*Acquisition costs*

The Company recorded integration-related costs during the quarters ended September 30, 2004 and 2003 of $79 thousand and $0 thousand, respectively. Acquisition costs recorded during the nine months ended September 30, 2004 and 2003 were $321 thousand and $54 thousand, respectively. Acquisition costs include costs related to unsuccessful acquisition efforts and integration-related costs including general and administrative costs, information system conversion costs and other direct integration-related charges. These costs were not directly related to the recent acquisitions of various companies, and therefore could not be capitalized as part of the acquisitions.

*Operating income*

Including the factors previously described, the Company had operating income of $10.8 million, or 12% of net sales during the quarter ended September 30, 2004, compared to operating income of $9.7 million, or 13% of net sales for the same period in 2003. The Company had operating income of $30.0 million, or 12% of net sales during the nine months ended September 30, 2004, compared to operating income of $39.2 million, or 17% 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) increased operating expenses represented as percentage of net sales associated with companies acquired in 2004 including Triplex, Edith Roman and OneSource, and 2) deferred revenue associated with the sale of subscription-based products described in the section net sales above.

Operating income for the infoUSA Group segment for the quarter ended September 30, 2004 was $9.8 million, or 30% of net sales, as compared to $10.4 million, or 28% of net sales for the same period in 2003. Operating income for the infoUSA Group segment for the nine months ended September 30, 2004 was $35.6 million, or 32% of net sales, as compared to $41.0 million, or 35% of net sales for the same period in 2003. The decrease in operating income is principally due to the effect of item 2 described above.

Operating income for the Donnelley Group segment for the quarter ended September 30, 2004 was $21.6 million, or 38% of net sales, as compared to $20.0 million, or 51% of net sales for the same period in 2003. Operating income for the Donnelley Group segment for the nine months ended September 30, 2004 was $59.6 million, or 41% of net sales, as compared to $57.4 million, or 50% of net sales for the same period in 2003. The decrease in operating income as a percentage net sales is principally due to increased operating expenses represented as percentage of net sales associated with companies acquired during 2004 including Triplex, Edith Roman and OneSource.

*Other income (expense), net*

Other expense, net was $(2.6) million, or 3% of net sales, and $(4.1) million, or 5% of net sales, for the quarters ended September 30, 2004 and 2003, respectively. Other expense, net was $(8.9) million, or 3% of net sales, and $(14.7) million, or 6% of net sales, for the nine months ended September 30, 2004 and 2003, respectively. Other income (expense), net is comprised of interest expense, investment income and other income or expense items, which do not represent components of operating income and operating expense of the Company.

Interest expense was $2.4 million and $2.2 million for the quarters ended September 30, 2004 and 2003, respectively. Interest expense was $6.4 million and $9.5 million for the nine months ended September 30, 2004 and 2003, respectively. The decrease is principally due to lower interest rates on the Company s former credit facility refinanced in May 2003, the reduction in the amount of 9 1/2 % Senior Subordinated Notes outstanding and favorable interest rates. Investment income (loss) was $(177) thousand and $394 thousand, for the quarters ended September 30, 2004 and 2003, respectively and $(219) thousand and $1,222 thousand for the nine months ended September 30, 2004 and 2003, respectively.

During the nine months ended September 30, 2004, the Company wrote-off deferred financing costs of $0.1 million related to the prior credit facility as a result of the financing on March 25, 2004 of the Credit Facility described in Note 6.

During the nine months ended September 30, 2004 the Company redeemed the remainder of its outstanding 9 1/2% Senior Subordinated Notes of $30.0 million at a premium of 4.75% to face amount. The premium paid on the redemption was $1.5 million, representing amounts paid in excess of the carrying value of the debt. As part of the redemption, the Company recorded charges of $0.6 million for net unamortized debt issue costs related to the Senior Subordinated Notes.

During the nine months ended September 30, 2003, the Company purchased $67.0 million of its 9 1/2% Senior Subordinated Notes of which $11.5 million were from the Chief Executive Officer. All purchases of 9 1/2% Senior Subordinated Notes occurred at the same price and under the same terms. As part of these purchases, the Company recorded charges of $1.6 million for related net unamortized debt issue costs and $3.1 million for amounts paid in excess of the carrying value of the debt.

During the nine months ended September 30, 2003, the Company expensed $0.8 million for net unamortized debt issue costs and $0.8 million in bank fees associated with the refinancing of the credit facility.

*Income taxes*

A provision for income taxes of $3.1 million and $2.0 million was recorded during the quarters ended September 30, 2004 and 2003, respectively and $8.0 million and $9.3 million for the nine months ended September 30, 2004 and 2003, reflecting an effective income tax rate of approximately 38%.

**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, pursue growth initiatives, make acquisitions and retire outstanding indebtedness.

The Company is not subject to significant variability in cash flows from operations. The Company s sales (including those subject to deferred revenue recognition practices), cash receipts and cash disbursements occur fairly evenly through the course of a fiscal year. The Company is not subject to significant variations due to seasonalities in business lines.

*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 administered by Wells Fargo Bank, N.A. The new credit facility provides for a $120.0 million Term A loan with a maturity date of March 2009 and a $50.0 million revolving line of credit with a maturity date of March 2007.

On June 4, 2004, the Company negotiated an amended and restated Senior Secured Credit Facility (the Credit Facility ) administered by Wells Fargo Bank, N.A. in conjunction with the acquisition of OneSource. The Credit Facility provides for a new $80.0 million Term B loan with a maturity date of June 2010.

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The Credit Facility provides for grid-based interest pricing based upon the Company s consolidated total leverage ratio and ranges from base rate plus 1.00% to 1.75% for base rate loans and LIBOR plus 2.00% to 2.75% for use of the revolving credit facility. The term loans interest rates range from base rate plus 1.50% to 2.00% or LIBOR plus 2.50% to 3.00%. Substantially all of the assets of the Company are pledged as security under the terms of the Credit Facility. At September 30, 2004, the Term A loan had a balance of $110.0 million bearing an interest rate of 4.17%, the Term B loan had a balance of $79.8 million bearing an interest rate of 4.63% and $39.6 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. The fixed charge coverage ratio and leverage ratio financial covenants are based on EBITDA ( Earnings before interest expense, income taxes, depreciation and amortization ), as adjusted, providing for adjustments to EBITDA for certain agreed upon items including investment income (loss), other charges (gains), asset impairments, non-cash stock compensation expense and other items defined within the Credit Facility. The Company was in compliance with all restrictive covenants of the Credit Facility as of September 30, 2004.

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 September 30, 2004, the Company s principal sources of liquidity included $39.6 million available under the Senior Secured Credit Facility. As of September 30, 2004, the Company had a working capital deficit of $42.9 million.

Net cash provided by operating activities during the nine months ended September 30, 2004 totaled $45.8 million compared to $37.5 million for the same period in 2003.

During the nine months ended September 30, 2004, the Company spent $3.7 million for additions of property and equipment and $1.9 million related to software and database development costs, compared to $4.7 million and $0.7 million, respectively during the same period in 2003.

During the nine months ended September 30, 2004, the Company spent a total of $109.8 million for acquisitions of businesses, net of cash acquired of $19.3 million. The Company paid $6.2 million for Triplex (net of cash acquired of $0.2 million) including capitalized acquisition costs of $0.3 million. The Company paid $12.3 million for Edith Roman (net of cash acquired of $1.2 million) including capitalized acquisition costs of $0.3 million. The Company paid $91.3 million for OneSource (net of cash acquired of $17.9 million) including capitalized acquisition costs of $1.6 million.

During the nine months ended September 30, 2004, the Company borrowed a total of $272.8 million in debt while making repayments on debt totaling $195.6 million during the same period. These amounts reflect activity for the financing of the acquisitions of Triplex, Edith Roman and OneSource during 2004, the refinancing of the Company s Senior Secured Credit Facility in March 2004 and the redemption of the Company s 9 1/2% Senior Subordinated Notes in April 2004.

*Selected Consolidated Balance Sheet Information*

Trade accounts receivable increased to $47.0 million at September 30, 2004 from $40.9 million at December 31, 2003. The increase is principally due to the acquisition of OneSource in June 2004. The day s sales outstanding ( DSO ) ratio, excluding OneSource and list brokerage sales, for the nine months ended September 30, 2004 was 46 days compared to 42 days for the same period in 2003.

List brokerage trade accounts receivable increased to $21.3 million at September 30, 2004 from $12.8 million at December 31, 2003. The increase is due to the acquisition of Edith Roman in June 2004, which provides list brokerage sales operations.

Deferred marketing costs decreased to $2.6 million at September 30, 2004 from $5.5 million at December 31, 2003. The decrease is the result of the Company s decreased spending during 2004 on direct marketing costs that are subject to deferral and amortization.

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List brokerage trade accounts payable increased to $16.9 million at September 30, 2004 from $9.5 million at December 31, 2003. The increase is due to the acquisition of Edith Roman in June 2004, which provides list brokerage sales operations.

Accrued expenses increased to $7.0 million at September 30, 2004 from $0.8 million at December 31, 2003. The increase is principally due to the acquisition of OneSource in June 2004 and accrued severance costs associated with the various acquisitions during 2004 and the termination of existing employees during 2004. Additionally, accrued expenses includes a hold-back amount of $1.1 million related to the acquisition of Triplex which is scheduled to be paid in January 2005.

Deferred revenue increased to $44.1 million at September 30, 2004 from $19.8 million at December 31, 2003. The increase is principally due to the acquisition of OneSource in June 2004.

Long-term debt, net of current portion increased to $187.7 million at September 30, 2004 from $122.5 million at December 31, 2003. The net increase is due to the financed acquisitions of Triplex, Edith Roman and OneSource during 2004.

Selected other balance sheet accounts including prepaid expenses, accounts payable, and accrued payroll expenses increased (decreased) moderately from their respective account balances at September 30, 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 2004 and payment timing differences related to various general operating expenses.

**Off-Balance Sheet Arrangements**

Other than rents associated with 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 (Revised) addresses consolidation by business enterprises of certain variable interest entities. The effective date for this Interpretation for the Company, as amended, was March 31, 2004. The adoption of this Interpretation did not have an impact on the financial statements of the Company.

The Financial Accounting Standards Board (FASB) issued an exposure draft on March 31, 2004 addressing accounting for share-based payments with the final statement expected to be issued in the fourth quarter of 2004. The objective of this proposed statement is to make one accounting standard available for share-based payments that would require a company to recognize in its financial statements the cost of employee services received in exchange for valuable equity instruments issued, and liabilities incurred, to employees in share-based payment transactions (e.g., stock options). For public entities, the proposed statement would be applied prospectively for awards that are granted, modified, or settled in any interim or annual period beginning after June 15, 2005. Additionally, public entities would recognize compensation cost for any portion of awards granted or modified after December 15, 1994, that is not yet vested at the date the standard is adopted. If the Company adopts the standard on July 1, 2005, it would be required to report in its financial statements the share-based compensation expense for the last six months of 2005 and may choose to use the modified retrospective application method to restate results for the two earlier interim periods. The FASB is encouraging companies to adopt the proposed statement early and begin recognizing expense in the first quarter of 2005. If the final statement is issued as proposed, management anticipates that adopting the new statement will have a negative impact of approximately two cents per share (three cents per share if the modified retrospective application method is used) for the year ending December 31, 2005, representing the expense to be recognized from

July 1, 2005 through December 31, 2005 for the unvested portion of awards which were granted prior to July 1, 2005.

**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.*

The Internet is widely accepted by businesses all over the world. It is a very fluid distribution channel for information. The Company has always used the cutting edge technology to deliver its information to its customers. *info*USA was the first database company to offer its products on magnetic media, CD, DVD and also the Internet. Our Sales Genie, SalesLeadsUSA and other products are now being offered on the Internet on a subscription basis. We cannot guarantee that in the future that the Internet will be as prevalent as it is now, but we believe this will be the primary method of delivery of information.

*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: Acxiom, Experian (a subsidiary of Great Universal Stores, P.L.C. ( GUS )), Equifax, Harte-Hanks Communications, Inc. and Dun & Bradstreet(C).

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 September 30, 2004, we had total indebtedness of $220.6 million. 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 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.

*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.

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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.*

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 those companies recently acquired during 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 has identified interest rate risk as the Company s primary market risk exposure. The Company is exposed to significant future earnings and cash flow exposures from significant changes in interest rates as nearly all of the Company s debt is at variable rates. If necessary, the Company could refinance the Company s debt to fixed rates or utilize interest rate protection agreements to manage interest rate risk. For example, a 100 basis point increase (decrease) in the interest rate would cause an annual increase (decrease) in interest expense of $2.2 million. At September 30, 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 September 30, 2004, the Company had long-term debt with a carrying value of $220.6 million and estimated fair value of the same. The Company has no significant operations subject to risks of foreign currency fluctuations.

ITEM 4.

CONTROLS AND PROCEDURES

The Company s management, with the participation of the Company s Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the fiscal quarter ended September 30, 2004. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company s disclosure controls and procedures were effective as of the end of the fiscal quarter ended September 30, 2004 to ensure that information that is required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. There were no changes in the Company s internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2004 that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting.

infoUSA INC.
FORM 10-Q

FOR THE QUARTER ENDED

September 30, 2004

PART II

OTHER INFORMATION

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/A under Item 2 and 7 on August 3, 2004 containing financial information related to its acquisition of OneSource Information Services, Inc. on June 3, 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: November 9, 2004 | */s/ Michael Schultz* |
| | Michael Schultz, Controller<br>(principal accounting officer) |
| Date: November 9, 2004 | */s/ Raj Das* |
| | Raj Das, Chief Financial Officer |

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