

INFOUSA INC
Form 10-Q
November 09, 2004

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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, 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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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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Table of Contents**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
	<u> </u>	<u> </u>
	(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
	<u> </u>	<u> </u>
Total current assets	94,878	71,625
	<u> </u>	<u> </u>
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
	<u> </u>	<u> </u>
	\$ 516,891	\$ 366,346
	<u> </u>	<u> </u>
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
	<u> </u>	<u> </u>
Total current liabilities	137,790	84,690
	<u> </u>	<u> </u>

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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)
	<u> </u>	<u> </u>
Total stockholders' equity	<u>165,413</u>	<u>146,221</u>
	<u>\$ 516,891</u>	<u>\$ 366,346</u>

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

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

Table of Contents**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)
	<hr/>	<hr/>
Net cash provided by operating activities	45,791	37,544
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Net cash used in investing activities	(116,821)	(9,892)
	<hr/>	<hr/>

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
	<u> </u>	<u> </u>
Net cash used in financing activities	78,445	(30,796)
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	7,415	(3,144)
Cash and cash equivalents, beginning of period	2,686	6,285
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 10,101	\$ 3,141
	<u> </u>	<u> </u>
Supplemental cash flow information:		
Interest paid	\$ 6,208	\$ 8,390
	<u> </u>	<u> </u>
Income taxes paid	\$ 6,053	\$ 9,904
	<u> </u>	<u> </u>

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

Table of Contents**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	<u>53,317</u>	<u>52,357</u>	<u>53,123</u>	<u>51,453</u>

3. SEGMENT INFORMATION

The Company currently reports financial information on two business segments.

The *infoUSA* 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 *infoUSA* 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 *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 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
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	(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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	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)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive income	\$4,603	\$ 2,200	\$12,570	\$13,899
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(in thousands)			
Balance at September 30, 2004	\$(866)	\$(708)	\$(704)	\$(2,278)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at December 31, 2003	\$(866)	\$(672)	\$(180)	\$(1,718)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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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