

INFOUSA INC  
Form 10-Q  
August 14, 2002

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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 June 30, 2002 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.

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(exact name of registrant specified in its charter)

DELAWARE

47-0751545

---

(State or other jurisdiction of  
incorporation or organization)

---

(I.R.S. Employer  
Identification Number)

---

5711 SOUTH 86TH CIRCLE, OMAHA, NEBRASKA

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68127

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(Address of principal executive offices)

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(Zip Code)

Registrant's telephone number, including area code (402) 593-4500

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

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.

50,958,516 shares of Common Stock at August 2, 2002

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FORM 10-Q

FOR THE QUARTER ENDED

JUNE 30, 2002

PART I FINANCIAL INFORMATION

ITEMS 1 AND 2. FINANCIAL STATEMENTS AND  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

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

	JUNE 30, 2002	DECEMBER 31, 2001
<b>ASSETS (UNAUDITED)</b>		
Current assets:		
Cash and cash equivalents	\$ 427	\$ 4,382
Marketable securities	935	1,037
Trade accounts receivable, net of allowances of \$4,762 and \$4,670, respectively	46,921	44,890
Officer note receivable	940	
List brokerage trade accounts receivable	19,216	16,992
Prepaid expenses	5,435	6,861
Deferred income taxes	249	1,251
Deferred marketing costs	2,478	2,058
<b>Total current assets</b>	<b>76,601</b>	<b>77,471</b>
Property and equipment, net	48,154	51,640
Intangible assets, net	277,483	284,675
Other assets	4,099	5,302
	<b>\$406,337</b>	<b>\$ 419,088</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 20,639	\$ 19,770
Accounts payable	11,191	7,760
Book overdraft	1,027	
List brokerage trade accounts payable	16,376	15,031
Accrued payroll expenses	8,022	7,891
Accrued expenses	6,760	9,240
Income taxes payable	332	4,030
Deferred revenues	18,291	17,419
<b>Total current liabilities</b>	<b>82,638</b>	<b>81,141</b>
Long-term debt, net of current portion	186,837	205,900
Deferred income taxes	24,578	27,250
Deferred revenue	6,000	9,000
Stockholders equity:		
Preferred stock, \$.0025 par value. Authorized 5,000,000 shares; none issued or outstanding		
Common stock, \$.0025 par value. Authorized 295,000,000 shares; 51,869,598 shares issued and 50,958,516 outstanding at June 30, 2002 and 51,850,339 shares issued and 50,891,248 outstanding at December 31, 2001	130	130
Paid-in capital	93,400	93,551
Retained earnings	20,895	11,801
Treasury stock, at cost, 911,082 shares held at June 30, 2002 and 959,091 held at December 31, 2001	(6,442)	(7,028)
Notes receivable from officers	(830)	(1,296)

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Accumulated other comprehensive loss	(869)	(1,361)
	<u>          </u>	<u>          </u>
Total stockholders' equity	106,284	95,797
	<u>          </u>	<u>          </u>
	\$406,337	\$ 419,088
	<u>          </u>	<u>          </u>

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

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infoUSA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share amounts)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2002	2001	2002	2001
	(UNAUDITED)		(UNAUDITED)	
Net sales	\$ 74,042	\$ 70,909	\$ 150,765	\$ 144,762
Costs and expenses:				
Database and production costs	21,313	19,526	42,573	40,913
Selling, general and administrative (excluding non-cash stock options compensation expense of \$27 and \$225 for the three months and \$27 and \$302 for the six months ended June 30, 2002 and 2001, respectively)	31,966	26,682	63,847	53,943
Depreciation and amortization	7,149	12,189	14,253	24,922
Non-cash stock option compensation	27	225	27	302
Restructuring charges	645	767	812	1,643
Litigation settlement charge	307		307	
Acquisition costs	110		173	
Total operating costs and expenses	61,517	59,389	121,992	121,723
Operating income	12,525	11,520	28,773	23,039
Other income (expense):				
Investment income	28	428	98	673
Other charges	(1,183)		(2,387)	
Minority interest in gain of subsidiary		(267)		(327)
Interest expense	(4,744)	(6,429)	(9,158)	(13,343)
Income before income taxes and extraordinary item	6,626	5,252	17,326	10,042
Income taxes	2,400	3,047	6,465	5,983
Income before extraordinary item	4,226	2,205	10,861	4,059
Extraordinary item, net of tax			(1,769)	
Net income	\$ 4,226	\$ 2,205	\$ 9,092	\$ 4,059
BASIC EARNINGS PER SHARE:				
Income before extraordinary item	\$ 0.08	\$ 0.04	\$ 0.21	\$ 0.08
Loss on extraordinary item, net of tax			(0.03)	
Net income	\$ 0.08	\$ 0.04	\$ 0.18	\$ 0.08
Weighted average shares outstanding	50,923	50,571	50,908	50,569
DILUTED EARNINGS PER SHARE:				
Income before extraordinary item	\$ 0.08	\$ 0.04	\$ 0.21	\$ 0.08
Loss on extraordinary item, net of tax			(0.03)	



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Net income	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ 0.18</u>	<u>\$ 0.08</u>
Weighted average shares outstanding	<u>51,088</u>	<u>50,571</u>	<u>51,145</u>	<u>50,569</u>

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

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infoUSA INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)

	<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>2002</b>	<b>2001</b>
	<b>(UNAUDITED)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 9,092	\$ 4,059
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,253	24,922
Amortization of deferred financing costs	561	578
Deferred income taxes	(1,670)	(6,450)
Non-cash stock option compensation expense	27	302
Non-cash 401(k) contribution in common stock	320	120
Non-cash investment loss	1,257	
Loss on interest rate swap agreement	1,204	
Extraordinary item loss on extinguishment of debt	1,769	
Non-cash other charges	60	
Minority interest in gain of subsidiary		327
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	(2,700)	6,236
List brokerage trade accounts receivable	1,400	(896)
Prepaid expenses and other assets	1,702	2,792
Deferred marketing costs	(376)	245
Accounts payable	3,277	(5,346)
List brokerage trade accounts payable	(536)	74
Income taxes receivable and payable, net	(3,698)	9,113
Accrued expenses and deferred revenue	(4,713)	(10,820)
	21,229	25,256
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities	(32)	(1,032)
Purchases of property and equipment	(1,872)	(1,860)
Acquisitions of businesses	(3,983)	
Software and database development costs	(1,353)	(1,094)
	(7,240)	(3,986)
Net cash used in investing activities	(7,240)	(3,986)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	(18,515)	(16,717)
Deferred financing costs paid	(1,025)	
Book overdraft	1,027	
Proceeds from exercise of stock options and collection of notes receivable from officers	569	
	(17,944)	(16,717)
Net cash provided by (used in) financing activities	(17,944)	(16,717)
Net increase (decrease) in cash and cash equivalents	(3,955)	4,553
Cash and cash equivalents, beginning	4,382	21,693
	\$ 427	\$ 26,246
Cash and cash equivalents, ending	\$ 427	\$ 26,246

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Supplemental cash flow information:		
Interest paid	\$ 8,157	\$ 13,572
	<u>          </u>	<u>          </u>
Income taxes paid	\$ 11,191	\$ 2,723
	<u>          </u>	<u>          </u>

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

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infoUSA INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. GENERAL**

The accompanying unaudited 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 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, 2001 included in the Company's 2001 Annual Report on Form 10-K, filed with the Securities and Exchange Commission. Results for the interim periods presented are not necessarily indicative of results to be expected for the entire year.

The Company adopted certain provisions of SFAS No. 142 ( SFAS 142 ), Goodwill and Other Intangible Assets effective January 1, 2002. Therefore, we ceased to amortize approximately \$16.5 million of goodwill effective January 1, 2002, that we had amortized during 2001. In accordance with SFAS 142, the Company is required to perform an initial impairment test of goodwill in 2002 and update the impairment test annually. The Company has completed the initial valuation of the goodwill and other intangible assets required by FASB 142 for impairment testing and concluded that no impairment existed at January 1, 2002.

**2. EARNINGS PER SHARE INFORMATION**

The following table shows the amounts used in computing earnings per share and the effect on the weighted average number of shares of dilutive potential common stock. For the three and six months ended June 30, 2001, the average market price of the Company's common stock was less than the exercise price of all the Company's outstanding common stock subject to option. Therefore, the Company excluded 3.6 million shares in computing diluted earnings per share for the three and six months ended June 30, 2001.

	<b>THREE MONTHS ENDED JUNE 30,</b>		<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b>(IN THOUSANDS)</b>		<b>(IN THOUSANDS)</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
Weighted average number of shares outstanding used in basic EPS	50,923	50,571	50,908	50,569
Net additional common stock equivalent shares outstanding after assumed exercise of stock options	165		237	
Weighted average number of shares outstanding used in diluted EPS	51,088	50,571	51,145	50,569

**3. SEGMENT INFORMATION**

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

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

The large business segment principally engages in the selling of data processing services, licensed databases, database marketing solutions and list brokerage and list management services to large companies. This segment includes the licensing of databases for Internet directory assistance services.

The small business and large business segments reflect actual net sales, direct order production, and identifiable direct sales and marketing costs related to their operations. The remaining indirect costs are presented as a reconciling item in corporate activities.

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Corporate activities principally represent the information systems technology, database compilation, database verification, and administrative functions of the Company. Investment income, interest expense, income taxes, amortization of intangibles, and

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depreciation expense are only recorded in corporate activities. The Company does not allocate these costs to the two business segments. The Company classifies restructuring costs, acquisition costs, litigation settlement charges and other charges as corporate activities to allow for the analysis of the sales business segments excluding such unusual or non-recurring charges.

The Company accounts for property and equipment on a consolidated basis. The Company's property and equipment is shared by the Company's business segments. Depreciation expense is recorded in corporate activities.

The Company has no intercompany sales or intercompany expense transactions. Accordingly, there are no adjustments necessary to eliminate amounts between the Company's segments.

The following table summarizes segment information:

<b>FOR THE THREE MONTHS ENDED JUNE 30, 2002</b>				
	<b>SMALL BUSINESS</b>	<b>LARGE BUSINESS</b>	<b>CORPORATE ACTIVITIES</b>	<b>CONSOLIDATED TOTAL</b>
(IN THOUSANDS)				
Net sales	\$ 36,929	\$ 37,113	\$	\$ 74,042
Non-cash stock compensation			27	27
Restructuring charges			645	645
Litigation settlement charges			307	307
Acquisition costs			110	110
Operating income	13,867	19,732	(21,074)	12,525
Investment income			28	28
Interest expense			4,744	4,744
Other charges			1,183	1,183
Income before income taxes and extraordinary item	13,867	19,732	(26,973)	6,626

<b>FOR THE THREE MONTHS ENDED JUNE 30, 2001</b>				
	<b>SMALL BUSINESS</b>	<b>LARGE BUSINESS</b>	<b>CORPORATE ACTIVITIES</b>	<b>CONSOLIDATED TOTAL</b>
(IN THOUSANDS)				
Net sales	\$ 31,095	\$ 39,814	\$	\$ 70,909
Non-cash stock compensation			225	225
Restructuring charges			767	767
Operating income	14,639	21,428	(24,547)	11,520
Investment income			428	428
Interest expense			6,429	6,429
Income before income taxes and extraordinary item	14,639	21,428	(30,815)	5,252

<b>FOR THE SIX MONTHS ENDED JUNE 30, 2002</b>				
	<b>SMALL BUSINESS</b>	<b>LARGE BUSINESS</b>	<b>CORPORATE ACTIVITIES</b>	<b>CONSOLIDATED TOTAL</b>
(IN THOUSANDS)				
Net sales	\$ 76,277	\$ 74,488	\$	\$ 150,765
Non-cash stock compensation			27	27
Restructuring charges			812	812

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Litigation settlement charges			307	307
Acquisition costs			173	173
Operating income	29,737	40,044	(41,008)	28,773
Investment income			98	98
Interest expense			9,158	9,158
Other charges			2,387	2,387
Income before income taxes and extraordinary item	29,737	40,044	(52,455)	17,326

FOR THE SIX MONTHS ENDED JUNE 30, 2001

	<b>SMALL BUSINESS</b>	<b>LARGE BUSINESS</b>	<b>CORPORATE ACTIVITIES</b>	<b>CONSOLIDATED TOTAL</b>
	(IN THOUSANDS)			
Net sales	\$ 65,664	\$ 79,098	\$	\$ 144,762
Non-cash stock compensation			302	302
Restructuring charges			1,643	1,643
Operating income	33,591	42,643	(53,195)	23,039
Investment income			673	673
Interest expense			13,343	13,343
Income before income taxes and extraordinary item	33,591	42,643	(66,192)	10,042

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## 4. COMPREHENSIVE INCOME

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

	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001	JUNE 30, 2002	JUNE 30, 2001
	(IN THOUSANDS)		(IN THOUSANDS)	
Net income	\$4,226	\$2,205	\$9,092	\$4,059
Other comprehensive income (loss):				
Unrealized loss from investments:				
Unrealized losses	(133)		(56)	(24)
Related tax expense	51		21	9
Net	(82)		(35)	(15)
Interest rate swap agreement:				
Gains (losses)		61	850	(1,400)
Related tax expense		(23)	(323)	532
Net		38	527	(868)
Total other comprehensive income (loss)	(82)	38	492	(883)
Comprehensive income	\$4,144	\$2,243	\$9,584	\$3,176

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

	FOREIGN CURRENCY GAINS/(LOSSES) ADJUSTMENTS	UNREALIZED ON TRANSLATION DERIVATIVE INSTRUMENTS	UNREALIZED ON SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
	(IN THOUSANDS)			
Balance at June 30, 2002	\$ (668)	\$	\$ (201)	\$ (869)
Balance at December 31, 2001	\$ (668)	\$(527)	\$ (166)	\$ (1,361)

## 5. ACQUISITIONS

During 2002, the Company completed a number of acquisitions of businesses. Each acquisition was accounted for using the purchase method of accounting. The results of each acquired business has been included in the Company's consolidated financial statements since the date of acquisition. The acquisitions completed by the Company include:

In June 2002, the Company acquired all of the issued and outstanding common stock of Hill-Donnelly Inc., a business directory provider. Total consideration for the acquisition included cash of \$1.8 million. The purchase price for acquisition was allocated to current assets of \$0.5



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million, property and equipment of \$0.1 million, current liabilities of \$0.2 million and goodwill of \$1.4 million.

In April 2002, the Company acquired certain assets and assumed certain liabilities of Key Contacts, Inc., a Canadian database list business. Total consideration for the acquisition was cash of \$0.2 million. The purchase price for the acquisition was allocated to property and equipment of \$5 thousand, current liabilities of \$34 thousand and goodwill of \$223 thousand.

In March 2002, the Company acquired the e-mail list business of DoubleClick, Inc. through an acquisition of assets and the assumption of certain liabilities. Total consideration for the acquisition was cash of \$2.0 million. The purchase price for the acquisition was allocated to current assets of \$3.8 million, current liabilities of \$2.0 million and goodwill of \$0.2 million.

In January 2002, the Company acquired all issued and outstanding common stock of Database Concepts, Inc., a Canadian database development business. Total consideration for the acquisition was cash of \$0.3 million. The purchase price for the acquisition was allocated to current assets of \$44 thousand, property and equipment of \$8 thousand, current liabilities of \$72 thousand and goodwill of \$334 thousand.

Pro forma operating results have been omitted because the Company has determined that the effects of these acquisitions on 2002 and 2001 earnings and earnings per share are not material.

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The Company maintains several stock option plans under which the Company may grant incentive stock options and non-qualified stock options to officers, directors, employees and consultants of the Company. Stock options have been granted at prices at or above the fair market value at the date of the grant. Options generally vest over four years and expire after 5 years. The Company uses Accounting Principles Bulletin (APB) Opinion No. 25 to account for stock-based compensation to employees and directors of the Company. Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, EITF No. 96-18 Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, and FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans and other related FASB Interpretations are used to record stock-based compensation to non-employees of the Company. During the second quarter of 2002, the Company granted non-qualified stock options to a non-employee consultant of the Company in connection with a consulting agreement executed by the Company. The fair value of the option was estimated, as of the grant date, using the Black-Scholes option pricing model with the following assumptions: no dividend yield for any year, expected volatility of 64%, risk free interest rate of 4.11% and an expected life of 5 years. As such, the Company has recorded a non-cash charge of \$27 thousand, related to stock options granted to the consultant during the six months ended June 30, 2002. The charges were recorded as an addition to paid-in-capital. The consulting agreement commits the Company to make cash payments of \$450 thousand, \$675 thousand, \$775 thousand and \$200 thousand in 2002, 2003, 2004 and 2005 to the consultant for services rendered. Expense recorded for the three and six months ended June 30, 2002 for this consulting agreement was \$117 thousand.

The Company's subsidiary, infoUSA.com, sponsored an Equity Incentive Plan in which shares of common stock are reserved for issuance to officers, directors, employees and consultants of the subsidiary. The Company has recorded a non-cash charge of \$0.2 million and \$0.3 million, during the three and six months ended June 30, 2001, respectively, related to stock options for infoUSA.com. The charges were recorded as an addition to paid-in-capital.

**7. RESTRUCTURING CHARGES**

During the six months ended June 30, 2002, the Company recorded restructuring charges due to further workforce reductions of \$0.8 million. The costs were incurred and paid during the six months ended June 30, 2002. The workforce reduction charges included involuntary employee separation costs for approximately 112 employees in administration, sales support and marketing functions.

During the six months ended June 30, 2001, the Company recorded restructuring charges due to workforce reductions of \$1.6 million, as a part of the Company's overall strategy to reduce costs and continue commitment to its core businesses. The costs were incurred and paid during the six months ended June 30, 2001. The workforce reduction charges included involuntary employee separation costs for approximately 215 employees in administration, sales support and marketing functions.

**8. ACQUISITION COSTS**

During the six months ended June 30, 2002, the Company recorded integration-related acquisition costs of \$0.2 million, or less than 1% of net sales. The integration-related costs included consulting costs, information system conversion and other direct integration-related charges. These costs were not directly related to the acquisition of Polk Directories, and therefore could not be capitalized, but were costs associated with the integration of Polk Directories operations into the Company's existing operations.

**9. LOSS ON INTEREST RATE SWAP AGREEMENT**

During 1999 in conjunction with the acquisition of Donnelley, the Company negotiated a credit arrangement ( Senior Debt Credit facility ). According to the terms of the Senior Debt Credit Facility, the Company entered into an interest rate swap agreement with Union Bank of California, to fix the rate on \$60.5 million of the debt at an interest rate of 6.385% for the term of 3 years. On March 6, 2002, the Company refinanced the Senior Debt Credit facility administered by Deutsche Bank with Bank of America Securities, LLC. As a result of the refinancing, the Company recorded a charge of \$1.2 million as Other Charges in the Statement of Operations for amounts previously reported in Other Comprehensive Income related to the fair value of the interest rate swap agreement. The interest rate swap agreement will not be accounted for as an interest rate hedge agreement for the remaining term of the agreement, which ultimately concludes September 2002.

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## 10. EXTRAORDINARY ITEM, NET OF TAX

On March 6, 2002, the Company refinanced its senior debt credit facility administered by Deutsche Bank to Bank of America Securities, LLC. On March 6, 2002, the Company recorded an extraordinary item of \$1.8 million, net of income tax benefit of \$1.2 million, for the net unamortized debt issue costs related to the extinguishment of the senior debt credit facility with Deutsche Bank.

## 11. RELATED PARTY TRANSACTIONS

Mr. Gupta, who is the Chairman and Chief Executive Officer of the Company, is eligible for a cash bonus in 2002 based on Company performance. The criteria for Mr. Gupta's bonus is that he will receive 10% of the Company's adjusted EBITDA in excess of \$80 million. In January 2002, the Company paid an advance to Mr. Gupta in the amount of \$1.5 million (based on 2001 performance) to be off set against any 2002 bonus payable to Mr. Gupta pursuant to his bonus program. The advance will be applied to part or all of his 2002 bonus, if performance criteria are met, or paid back by Mr. Gupta within the next 12 months. In May 2002, Mr. Gupta paid back \$0.6 million of the original advance, leaving an advance balance of \$0.9 million.

## 12. GOODWILL AND OTHER INTANGIBLE ASSETS ADOPTION OF STATEMENT 142

The Company adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets for the six months ended June 30, 2002. Beginning January 1, 2002, the Company ceased the amortization of goodwill and certain other intangible assets, the result of which is no further expense for the amortization of these intangible assets in 2002 and future years. Amortization expense for goodwill of \$7.7 million, net of tax benefit of \$0.6 million, was recorded during the first six months of 2001 that was not recorded during the first six months of 2002.

Acquired intangible assets as of June 30, 2002 consist of:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>
(amounts in \$000s)		
Amortized intangible assets:		
Goodwill	\$ 268,286	\$ 51,069
Purchased data processing and technology	78,278	41,662
Acquired database costs	19,000	19,000
Tradename	15,802	4,212
Non-compete agreements	13,534	7,571
Customer base	8,372	4,655
	<b>\$ 403,272</b>	<b>\$ 128,169</b>

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Assuming the provisions of SFAS 142 had been implemented as of January 1, 2001, adjusted net income before extraordinary items, adjusted net income and earnings per share would have been:

	FOR THE SIX MONTHS ENDED	
	JUNE 30, 2002	JUNE 30, 2001
(\$000s except for earnings-per-share amounts)		
Reported income before extraordinary item	\$ 10,861	\$ 4,059
Goodwill amortization, net of tax		7,680
Adjusted net income before extraordinary item	\$ 10,861	\$ 11,739
Reported net income	\$ 9,092	\$ 4,059
Goodwill amortization, net of tax		7,680
Adjusted net income	\$ 9,092	\$ 11,739
Basic & Diluted earnings per share:		
Reported net income before extraordinary item per share	\$ 0.21	\$ 0.08
Goodwill amortization, net of tax		0.15
Adjusted net income before extraordinary item per share	\$ 0.21	\$ 0.23
Reported net income per share	\$ 0.18	\$ 0.08
Goodwill amortization, net of tax		0.15
Adjusted net income per share	\$ 0.18	\$ 0.23

**13. CONTINGENCIES**

The Company and its subsidiaries are routinely involved in legal proceedings, claims and litigation arising in the ordinary course of business. During the three months ended June 30, 2002, the Company recorded charges of \$0.3 million related to the Company's settlement of a contractual dispute. On May 14, 2002, a principal of one of the acquisitions made by the Company in 1996 was awarded \$1.6 million by an arbitrator, for settlement of a dispute regarding exercise of stock options issued by the Company as a part of the purchase. The Company's management, under advice from outside legal counsel, believes that it has sufficient legal grounds to have the ruling overturned. Accordingly, the Company has not recorded a litigation charge for the cost of this judgement or other potential claims and contingent liabilities as management believes that the likelihood of a material loss for such contingencies is unlikely.

**14. OTHER CHARGES**

During the three months ended June 30, 2002, the Company recorded a loss of \$1.1 million for an other-than-temporary decline in the value of a nonmarketable equity investment. The investment was determined to be impaired by management after consideration of the acquisition of the investment by another entity, diluting the Company's investment in this entity to a nominal value. The loss is classified with Other Charges in the Statement of Operations.

The Company has other investments totaling \$3.0 million in nonmarketable equity securities where the carrying value of the investments may exceed the estimated fair value of the investments. The Company continues to monitor the conditions and events that effect the recoverability of these investments. To the extent that conditions for these investments do not improve, additional write-offs for other-than-temporary declines in the fair value of these equity securities may emerge.

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On April 12, 2002, the Company repurchased \$2.0 million outstanding Senior Subordinated Notes of the Company at par. As a result of the repurchase, the Company recorded a charge of \$0.1 million for the net unamortized debt issue costs related to the Senior Subordinated Notes as Other Charges in the Statement of Operations.

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

GENERAL

The Company is a leading provider of business and consumer information, data processing and database marketing services. The Company's key assets include proprietary databases of 14 million businesses and 250 million consumers in the United States and Canada. We believe our proprietary content is the most comprehensive and accurate data available. We leverage these key assets by selling through multiple distribution channels to over 4 million customers that include small and medium-size businesses, Fortune 1000 companies, consumers, and Internet users.

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 Affecting Operating Results below. The Company assumes no obligation to update the forward-looking statement or such factors.

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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 the acquisitions of Polk Directories in October 2001, Database Concepts in January 2002, the email list business of Doubleclick, Inc. in March 2002, Key Contacts in April 2002 and Hill-Donnelly Inc. in June 2002:

	<b>THREE MONTHS ENDED</b>	<b>THREE MONTHS ENDED</b>	<b>SIX MONTHS ENDED</b>	<b>SIX MONTHS ENDED</b>
	<b>JUNE 30, 2002</b>	<b>JUNE 30, 2001</b>	<b>JUNE 30, 2002</b>	<b>JUNE 30, 2001</b>
<b>CONSOLIDATED STATEMENT OF OPERATIONS</b>				
<b>DATA:</b>				
Net sales	100%	100%	100%	100%
Costs and expenses:				
Database and production costs	29	28	28	29
Selling, general and administrative	43	38	42	37
Depreciation and amortization	10	17	10	17
Non-cash stock compensation expense				
Restructuring charges	1		1	
Litigation settlement charge		1		