

INFOUSA INC
Form 10-Q
August 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 June 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

(State or other jurisdiction of
incorporation or organization)

47-0751545

(I.R.S. Employer Identification Number)

5711 SOUTH 86TH CIRCLE, OMAHA, NEBRASKA

(Address of principal executive offices)

68127

(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.

53,437,226 shares of Common Stock at August 3, 2004

infoUSA INC.

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Certification of CEO Pursuant to Section 906

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infoUSA INC.

FORM 10-Q

FOR THE QUARTER ENDED

June 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)

	June 30, 2004	December 31, 2003
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,376	\$ 2,686
Marketable securities	3,628	3,685
Trade accounts receivable, net of allowances of \$1,918 and \$2,492, respectively	50,782	40,922
List brokerage trade accounts receivable	21,230	12,844
Income taxes receivable	1,633	1,046
Prepaid expenses	8,586	4,985
Deferred marketing costs	3,040	5,457
	<hr/>	<hr/>
Total current assets	98,275	71,625
	<hr/>	<hr/>
Property and equipment, net	47,529	40,984
Goodwill, net	293,460	202,386
Intangible assets, net	72,925	45,223
Other assets	7,478	6,128
	<hr/>	<hr/>
	\$ 519,667	\$ 366,346
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 24,792	\$ 17,280
Accounts payable	16,237	16,212
List brokerage trade accounts payable	15,588	9,516
Accrued payroll expenses	17,961	17,793
Accrued expenses	8,001	824
Income taxes payable		
Deferred income taxes	3,294	3,241
Deferred revenues	42,104	19,824
	<hr/>	<hr/>

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Total current liabilities	103,185	84,690
	<u> </u>	<u> </u>
Long-term debt, net of current portion	211,357	122,485
Deferred income taxes	23,344	8,553
Deferred revenue		3,000
Other liabilities	1,397	1,397
Stockholders' equity:		
Common stock, \$.0025 par value. Authorized 295,000,000 shares; 53,428,426 shares issued and 52,976,722 outstanding at June 30, 2004 and 52,808,835 shares issued and 52,271,323 outstanding at December 31, 2003	134	132
Paid-in capital	105,210	99,447
Retained earnings	60,017	51,932
Treasury stock, at cost, 451,704 shares held at June 30, 2004 and 537,512 held at December 31, 2003	(2,749)	(3,247)
Notes receivable from officers	(328)	(325)
Accumulated other comprehensive loss	(1,836)	(1,718)
	<u> </u>	<u> </u>
Total stockholders' equity	160,448	146,221
	<u> </u>	<u> </u>
	<u>\$ 519,667</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 June 30,		SIX MONTHS ENDED June 30,	
	2004	2003	2004	2003
	(UNAUDITED)		(UNAUDITED)	
Net sales	\$ 83,794	\$ 78,831	\$ 164,605	\$ 154,911
Costs and expenses:				
Database and production costs	24,823	22,240	48,684	43,140
Selling, general and administrative (excluding non-cash stock option compensation expense of \$458 and \$69 for the three months and \$640 and \$69 for the six months ended June 30, 2004 and 2003, respectively)	40,021	33,864	80,200	66,998
Depreciation and amortization of operating assets	3,560	3,707	6,874	7,558
Amortization of intangible assets	3,616	3,326	7,062	6,650
Non-cash stock option compensation	458	69	640	69
Restructuring charges	1,007	430	1,622	985
Acquisition costs	239	41	242	54
Total operating costs and expenses	<u>73,724</u>	<u>63,677</u>	<u>145,324</u>	<u>125,454</u>
Operating income	10,070	15,154	19,281	29,457
Other income (expense):				
Investment income (loss)	(243)	146	(42)	828
Other charges	(2,079)	(3,810)	(2,223)	(4,145)
Interest expense	<u>(1,761)</u>	<u>(3,596)</u>	<u>(3,975)</u>	<u>(7,257)</u>
Other expense, net	(4,083)	(7,260)	(6,240)	(10,574)
Income before income taxes	5,987	7,894	13,041	18,883
Income taxes	<u>2,275</u>	<u>3,169</u>	<u>4,956</u>	<u>7,303</u>
Net income	<u>\$ 3,712</u>	<u>\$ 4,725</u>	<u>\$ 8,085</u>	<u>\$ 11,580</u>
Basic earnings per share:	<u>\$ 0.07</u>	<u>\$ 0.09</u>	<u>\$ 0.15</u>	<u>\$ 0.23</u>
Diluted earnings per share:	\$ 0.07	\$ 0.09	\$ 0.15	\$ 0.23



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)**

	SIX MONTHS ENDED	
	June 30,	
	2004	2003
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,085	\$ 11,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of operating assets	6,874	7,558
Amortization of intangible assets	7,062	6,650
Amortization of deferred financing costs	77	458
Deferred income taxes	(2,874)	3,952
Tax benefit related to employee stock options	762	
Non-cash stock option compensation expense	640	69
Non-cash 401(k) contribution in common stock	812	680
(Gain) loss on sale of assets	79	(263)
Non-cash other charges	796	1,679
Changes in assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable	213	1,062
List brokerage trade accounts receivable	1,316	4,170
Prepaid expenses and other assets	(151)	(3,398)
Deferred marketing costs	2,417	(1,082)
Accounts payable	(2,766)	270
List brokerage trade accounts payable	(2,206)	(4,053)
Income taxes receivable and payable, net	1,089	(3,870)
Accrued expenses and other liabilities	3,991	1,907
	<u>26,216</u>	<u>27,369</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of other investments	1,704	396
Purchase of other investments	(2,929)	(626)
Purchases of property and equipment	(2,491)	(2,632)
Acquisitions of businesses, net of cash acquired	(109,356)	(4,350)
Software and database development costs	(1,032)	(237)
	<u>(114,104)</u>	<u>(7,449)</u>

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CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(179,649)	(122,105)
Proceeds of long-term debt	272,833	100,000
Deferred financing costs paid	(2,651)	(141)
Proceeds from exercise of stock options	4,045	12
	<u> </u>	<u> </u>
Net cash used in financing activities	94,578	(22,234)
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	6,690	(2,314)
Cash and cash equivalents, beginning of period	2,686	6,285
	<u> </u>	<u> </u>
Cash and cash equivalents, end of period	\$ 9,376	\$ 3,971
	<u> </u>	<u> </u>
Supplemental cash flow information:		
Interest paid	\$ 3,561	\$ 3,281
	<u> </u>	<u> </u>
Income taxes paid	\$ 5,792	\$ 7,374
	<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. 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 June 30,		Six Months Ended June 30,	
	(In Thousands)			
	2004	2003	2004	2003
Weighted average number of shares used in basic EPS	52,540	51,221	52,440	51,183
Net additional common stock equivalent shares outstanding after assumed exercise of stock options	566	18	590	5
Weighted average number of shares outstanding used in diluted EPS	53,106	51,239	53,030	51,188

3. SEGMENT INFORMATION

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

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

The Donnelley group (formerly known as the large business 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. The infoUSA group and Donnelley group 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.

Corporate activities principally represent the information systems technology, database compilation, database verification, and administrative functions of the Company. Investment income (loss), interest expense, income taxes, amortization of intangibles, and depreciation expense are only recorded in corporate activities. The Company does not allocate these costs to the two business segments. The infoUSA group and Donnelley group segments reflect actual net sales, direct order production, and identifiable direct sales and marketing-related costs related to their operations. The Company records unusual or non-recurring items including acquisition-related and restructuring charges and provisions for litigation settlement in corporate activities to allow for the analysis of the sales business segments excluding such unusual or non-recurring charges.

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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.

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 June 30, 2004

	infoUSA Group	Donnelley Group	Corporate Activities	Consolidated Total
	(In thousands)			
Net sales	\$38,273	\$45,521	\$	\$83,794
Non-cash stock compensation			(458)	(458)
Restructuring charges			(1,007)	(1,007)
Acquisition costs			(239)	(239)
Operating income (loss)	13,346	18,991	(22,267)	10,070
Investment loss			(243)	(243)
Other charges			(2,079)	(2,079)
Interest expense			(1,761)	(1,761)
Income (loss) before income taxes	13,346	18,991	(26,350)	5,987

For The Three Months Ended June 30, 2003

	infoUSA Group	Donnelley Group	Corporate Activities	Consolidated Total
	(In thousands)			
Net sales	\$40,088	\$38,743	\$	\$78,831
Non-cash stock compensation			(69)	(69)
Restructuring charges			(430)	(430)
Acquisition costs			(41)	(41)
Operating income (loss)	15,372	19,247	(19,465)	15,154
Investment income			146	146
Other charges			(3,810)	(3,810)
Interest expense			(3,596)	(3,596)
Income (loss) before income taxes	15,372	19,247	(26,725)	7,894

For The Six Months Ended June 30, 2004

	infoUSA Group	Donnelley Group	Corporate Activities	Consolidated Total
	(In thousands)			
Net sales	\$78,290	\$86,315	\$	\$164,605
Non-cash stock compensation			(640)	(640)
Restructuring charges			(1,622)	(1,622)

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Acquisition costs			(242)	(242)
Operating income (loss)	25,808	38,018	(44,545)	19,281
Investment loss			(42)	(42)
Other charges			(2,223)	(2,223)
Interest expense			(3,975)	(3,975)
Income (loss) before income taxes	25,808	38,018	(50,785)	13,041

For The Six Months Ended June 30, 2003

	infoUSA Group	Donnelley Group	Corporate Activities	Consolidated Total
			(In thousands)	
Net sales	\$79,654	\$75,257	\$	\$154,911
Non-cash stock compensation			(69)	(69)
Restructuring charges			(985)	(985)
Acquisition costs			(54)	(54)
Operating income (loss)	30,583	37,356	(38,482)	29,457
Investment income			828	828
Other charges			(4,145)	(4,145)
Interest expense			(7,257)	(7,257)
Income (loss) before income taxes	30,583	37,356	(49,056)	18,883

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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 Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(In thousands)		(In thousands)	
Net income	\$3,712	\$4,725	\$8,085	\$11,580
Other comprehensive income:				
Unrealized gain from investments:				
Unrealized gains (losses)	89	168	(190)	192
Related tax expense	(34)	(64)	72	(73)
	<u>55</u>	<u>104</u>	<u>(118)</u>	<u>119</u>
Net				
Total other comprehensive income	<u>55</u>	<u>104</u>	<u>(118)</u>	<u>119</u>
Comprehensive income	<u>\$3,767</u>	<u>\$4,829</u>	<u>\$7,967</u>	<u>\$11,699</u>

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

	Unrealized Gains/(Losses) Pension plan	Foreign Currency Translation Adjustments	Unrealized Gains / (Losses) On Securities	Accumulated Other Comprehensive Income (Loss)
	(in thousands)			
Balance at June 30, 2004	<u>\$ (866)</u>	<u>\$ (672)</u>	<u>\$ (298)</u>	<u>\$ (1,836)</u>
Balance at December 31, 2003	<u>\$ (866)</u>	<u>\$ (672)</u>	<u>\$ (180)</u>	<u>\$ (1,718)</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 data processing 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.

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 acquisition and retention solutions. 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 provides primarily Web-based business and financial information products to professionals who need quick access to timely and reliable company, industry, and market intelligence. 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.

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The total purchase price was \$109.0 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 \$1.4 million. Additionally, the Company paid \$2.3 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 \$20.8 million (including \$13.7 million of deferred revenue), other liabilities of \$11.6 million and goodwill and other intangibles of \$106.1 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 \$16.6 million (life of 6 years), tradenames and trademarks of \$4.4 million (life of 20 years) and goodwill of \$73.5 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 six months ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(In thousands, except per share amounts) (unaudited)			
Net sales	\$95,938	\$96,009	\$195,423	\$189,363
Net income	\$ (771)	\$ 1,704	\$ 1,760	\$ 5,590
Basic earnings per share	\$ (0.01)	\$ 0.03	\$ 0.03	\$ 0.11
Diluted earnings per share	\$ (0.01)	\$ 0.03	\$ 0.03	\$ 0.11

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.

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 June 30, 2004, the Term A loan had a balance of \$115.0 million bearing an interest rate of 3.64%, the Term B loan had a balance of \$80.0 million bearing an interest rate of 4.01% and \$29.6 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. Management believes the Company is in compliance with all restrictive covenants in the Credit Facility.

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