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INFOUSA INC
Form 10-Q
November 13, 2001

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, 2001 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 specified in its charter)

DELAWARE

47-0751545

(State or other jurisdiction of
Identification Number)

(I.R.S. Employer
incorporation or organization)

5711 SOUTH 86TH CIRCLE, OMAHA, NEBRASKA

68127

(Address of principal executive offices)

(Zip Code)

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

(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
--- ---

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.

50,571,248 shares of Common Stock at November 7, 2001

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infoUSA INC.

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Signature

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infoUSA INC.

FORM 10-Q

FOR THE QUARTER ENDED

SEPTEMBER 30, 2001

PART I

FINANCIAL INFORMATION AND
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
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infoUSA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
	-----	-----
ASSETS		
(UNAUDITED)		
Current assets:		
Cash and cash equivalents	\$ 2,896	\$ 21,134
Marketable securities	1,134	
Trade accounts receivable, net of allowances of \$2,694 and \$4,724, respectively	50,106	58,134
List brokerage trade accounts receivable	17,115	13,467
Income taxes receivable	467	4,671
Prepaid expenses	3,715	6,123
Deferred marketing costs	2,123	2,123
	-----	-----
Total current assets	77,556	106,134
	-----	-----
Property and equipment, net	50,119	54,296
Intangible assets, net	288,429	296,416
Other assets	5,416	6,416
	-----	-----
	\$ 421,520	\$ 463,416
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 17,040	\$ 17,040
Accounts payable	7,309	11,134
List brokerage trade accounts payable	15,503	13,467
Accrued payroll expenses	6,132	7,669
Accrued expenses	7,669	14,291
Deferred income taxes	1,291	1,920
Deferred revenues	17,920	19,134
	-----	-----
Total current liabilities	72,864	86,134
	-----	-----
Long-term debt, net of current portion	216,768	240,296
Deferred income taxes	28,299	29,416
Deferred revenue	9,000	12,416
Minority interest	--	3,416
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; 51,530,339 shares issued and 50,571,248 outstanding at September 30, 2001 and 51,519,872 shares issued and 50,520,620 outstanding at December 31, 2000	129	129
Paid-in capital	92,269	96,416
Retained earnings	11,130	6,416
Treasury stock, at cost, 959,091 shares held at September 30, 2001 and 999,252 held at December 31, 2000.....	(7,028)	(7,028)
Unamortized stock compensation expense	--	(4,416)
Accumulated other comprehensive loss	(1,911)	(1,911)

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Total stockholders' equity	94,589	90,
	\$ 421,520	\$ 463,
	=====	=====

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,
	2001	2000	2001
	(UNAUDITED)		(UNAUDITED)
Net sales	\$ 68,498	\$ 76,076	\$ 213,260
Costs and expenses:			
Database and production costs (excluding non-cash stock compensation expense of \$1,162 and \$3,999 for the periods ended September 30, 2000, respectively)	19,032	26,027	59,945
Selling, general and administrative (excluding non-cash stock compensation expense of \$146 and \$448 for the periods ended September 30, 2001 and \$67 and \$137 for the periods ended September 30, 2000, respectively)	26,341	35,801	80,284
Depreciation and amortization	11,736	13,123	36,658
Non-cash stock compensation expense	146	1,229	448
Restructuring charges	2,989	--	4,632
Acquisition costs	--	86	--
Total operating costs and expenses	60,244	76,266	181,967
Operating income (loss)	8,254	(190)	31,293
Other income (expense):			
Investment income	190	403	863
Gain on issuance of subsidiary stock	--	--	--
Minority interest in (income/loss) of subsidiary	609	1,095	282
Interest expense	(5,945)	(6,685)	(19,288)
Income (loss) from continuing operations before income taxes and cumulative			

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effect of change in accounting principle	3,108	(5,377)	13,150
Income taxes	2,874	1,141	8,857
	-----	-----	-----
Income (loss) from continuing operations before cumulative effect of change in accounting principle	234	(6,518)	4,293
Discontinued operations, net of tax	--	(733)	--
Cumulative effect of change in accounting principle, net of tax	--	--	--
	-----	-----	-----
Net income (loss)	\$ 234	\$ (7,251)	\$ 4,293
	=====	=====	=====

BASIC EARNINGS PER SHARE:

Income (loss) from continuing operations	\$ 0.00	\$ (0.13)	\$ 0.08
Loss on discontinued operations	--	(0.01)	--
Cumulative effect of change in accounting principle	--	--	--
	-----	-----	-----
Net income (loss)	\$ 0.00	\$ (0.14)	\$ 0.08
	=====	=====	=====

Weighted average shares outstanding	50,571	50,751	50,570
	=====	=====	=====

DILUTED EARNINGS PER SHARE:

Income (loss) from continuing operations	\$ 0.00	\$ (0.13)	\$ 0.08
Loss on discontinued operations	--	(0.01)	--
Cumulative effect of change in accounting principle	--	--	--
	-----	-----	-----
Net income (loss)	\$ 0.00	\$ (0.14)	\$ 0.08
	=====	=====	=====

Weighted average shares outstanding	50,587	50,751	50,570
	=====	=====	=====

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

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

NINE MONTHS ENDED
SEPTEMBER 30,

-----	-----
2001	2000
-----	-----

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(UNAUDITED)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)	\$	4,293	\$	(17,432)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization		36,658		38,771
Amortization of deferred financing costs		868		868
Deferred income taxes		(3,811)		(2,542)
Gain on issuance of subsidiary stock		--		(14,634)
Non-cash stock option compensation expense		448		4,136
Non-cash 401(k) contribution in common stock		120		1,541
Acquisition costs		--		615
Minority interest in gain (loss) of subsidiary		(282)		(2,795)
Cumulative change in accounting principle		--		10,266
Changes in assets and liabilities, net of effect of acquisitions:				
Trade accounts receivable		7,675		1,120
List brokerage trade accounts receivable		(3,616)		2,719
Prepaid expenses and other assets		3,834		(3,172)
Deferred marketing costs		346		(657)
Accounts payable		(4,175)		5,958
List brokerage trade accounts payable		1,522		(1,480)
Income taxes receivable and payable, net		5,558		(3,164)
Accrued expenses and deferred revenue		(15,166)		14,391
		-----		-----
Net cash provided by operating activities		34,272		34,509

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of marketable securities		(1,032)		(32)
Purchases of property and equipment		(2,964)		(8,215)
Acquisitions of businesses and minority interest		(16,326)		(9,308)
Software and database development costs		(1,501)		(9,944)
		-----		-----
Net cash used in investing activities		(21,823)		(27,499)

CASH FLOWS FROM FINANCING ACTIVITIES:

Repayment of long-term debt		(31,246)		(21,122)
Proceeds from sale of subsidiary common stock		--		22,845
Deferred financing costs		--		(708)
Proceeds from exercise of stock options		--		4,200
		-----		-----
Net cash provided by (used in) financing activities		(31,246)		5,215

Net increase (decrease) in cash and cash equivalents ...		(18,797)		12,225
Cash and cash equivalents, beginning		21,693		10,846
		-----		-----
Cash and cash equivalents, ending	\$	2,896	\$	23,071
		=====		=====

Supplemental cash flow information:

Interest paid	\$	17,476	\$	16,568
		=====		=====
Income taxes paid	\$	6,212	\$	8,059
		=====		=====

The accompanying notes are an integral part of the

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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, 2000 included in the Company's 2000 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.

Effective January 1, 2000, the Company changed its revenue recognition method for data licensing revenue and began to recognize revenue on data license arrangements on a straight-line basis. This change in method was made because a growing proportion of such license revenue is from long-term and continuous access agreements. The Company believes the newly adopted method better reflects the service commitment inherent in its various license agreements. The cumulative effect of the change in method of \$10.3 million is net of income tax benefit of \$3.5 million.

The Company uses derivative financial instruments to manage the risk of a change in interest rates on \$60.5 million of the debt incurred for the acquisition of Donnelley Marketing in July 1999. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company adopted SFAS No. 133 effective January 1, 2001. Upon adoption, the Company's interest rate swap agreement was designated as a cash flow hedge. The Company recorded a transition adjustment at January 1, 2001 of \$0.3 million, net of tax, as an accumulated other comprehensive loss to record the derivative financial instrument on the Company's financial statements. During the quarter ended September 30, 2001, the Company recorded an unrealized loss on the above derivative financial instrument of \$307 thousand, net of tax, as an accumulated other comprehensive loss in the stockholders equity section of the Consolidated Balance Sheet. In addition, a gain of \$0.1 million was recorded as a reduction in interest expense in the other income section of the Consolidated Statement of Operations. For the nine months ended September 30, 2001, the Company recorded an unrealized loss on the above derivative financial instrument of \$1.2 million, net of tax, as an accumulated other comprehensive loss in the stockholders equity section of the Consolidated Balance Sheet. In addition, a charge of \$0.5 million was recorded as interest expense in the other income (expense) section of the Consolidated Statement of Operations.

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. Options on 0.1 million and 0.5 million shares of common stock were not included in computing diluted earnings per share for the three months and nine

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months ended September 30, 2000, respectively, because their effects were antidilutive as the Company recorded a net loss for the period.

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	(IN THOUSANDS)		(IN THOUSANDS)	
	2001	2000	2001	2000
Weighted average number of shares outstanding used in basic EPS	50,571	50,751	50,570	49,900
Net additional common stock equivalent shares outstanding after assumed exercise of stock options	16	--	--	--
Weighted average number of shares outstanding used in diluted EPS	50,587	50,751	50,570	49,900
	=====	=====	=====	=====

3. SEGMENT INFORMATION

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

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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.

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 depreciation expense are only recorded in corporate activities. The Company does not allocate these costs to the two business segments. The Company records unusual or non-recurring items including acquisition costs, non-cash stock compensation expense, gain on issuance of subsidiary stock and minority interest in loss (gain) of subsidiary in 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

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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 SEPTEMBER 30, 2001				
	SMALL BUSINESS	LARGE BUSINESS	CORPORATE ACTIVITIES	CONSO TO
(IN THOUSANDS)				
Net sales	\$ 29,878	\$ 38,620	\$ --	\$
Non-cash stock compensation	--	--	146	
Operating income (loss)	13,716	18,047	(23,509)	
Investment income	--	--	190	
Interest expense	--	--	5,945	
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	13,716	18,047	(28,655)	

FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000				
	SMALL BUSINESS	LARGE BUSINESS	CORPORATE ACTIVITIES	CONSO TO
(IN THOUSANDS)				
Net sales	\$ 34,274	\$ 41,802	\$ --	\$
Non-cash stock compensation	--	--	1,229	
Acquisition costs	--	--	86	
Operating income (loss)	9,577	19,049	(28,816)	
Investment income	--	--	403	
Interest expense	--	--	6,685	
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	9,577	19,049	(34,003)	

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FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2001

	SMALL BUSINESS	LARGE BUSINESS	CORPORATE ACTIVITIES	CONSOLIDA TOTAL
	(IN THOUSANDS)			
Net sales	\$ 96,834	\$ 116,426	\$ --	\$ 213,
Non-cash stock compensation	--	--	448	
Operating income (loss)	46,550	58,810	(74,067)	31,
Investment income	--	--	863	
Interest expense	--	--	19,288	19,
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	46,550	58,810	(92,210)	13,

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000

	SMALL BUSINESS	LARGE BUSINESS	CORPORATE ACTIVITIES	CONSO T
	(IN THOUSANDS)			
Net sales	\$ 110,173	\$ 125,093	\$ --	\$
Non-cash stock compensation	--	--	4,136	
Acquisition costs	--	--	2,287	
Operating income (loss)	31,443	55,763	(87,604)	
Investment income	--	--	840	
Interest expense	--	--	19,937	
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	31,443	55,763	(89,272)	

4. COMPREHENSIVE INCOME (LOSS)

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

	FOR THE THREE MONTHS ENDED		
	SEPT 30, 2001	SEPT 30, 2000	SEPT 3 2001
	(IN THOUSANDS)		
Net income (loss)	\$ 234	\$ (7,251)	\$
Other comprehensive income (loss):			
Unrealized gain (loss) from investments:			
Unrealized gains (losses)	--	(39)	
Related tax expense	--	--	

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Net	--	(39)	
Interest rate swap agreement:			
Gains (losses)	(495)	--	
Related tax expense	188	--	
Net	(307)	--	
Foreign currency translation adjustments			
	--	--	
Total other comprehensive income (loss)	(307)	(39)	
Comprehensive income	\$ (73)	\$ (7,290)	\$

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

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	GAINS/ (LOSSES) ON DERIVATIVE INSTRUMENTS	UNREALIZED GAINS/ (LOSSES) ON SECURITIES	ACCUMULATED OTHER COMPREHENSIVE INCOME
	(IN THOUSANDS)			
Balance at September 30, 2001	\$ (668)	\$ (1,175)	\$ (68)	\$
Balance at December 31, 2000	\$ (668)	\$ --	\$ (53)	\$

5. NON-CASH STOCK COMPENSATION EXPENSE

The Company's subsidiary, infoUSA.com, sponsors an Equity Incentive Plan in which shares of common stock are reserved for issuance to officers, directors, employees and consultants of the subsidiary. There were no subsidiary options granted during the nine months ended September 30, 2001. The Company uses Accounting Principles Bulletin (APB) Opinion No. 25 to account for stock-based compensation to employees and directors of the Company and Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation and FASB Interpretation No. 28, Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans and other related FASB Interpretations for stock-based compensation to non-employees of the Company. As such, the Company has recorded a non-cash charge of \$0.1 million and \$1.2 million, during the quarters ended September 30, 2001 and 2000 respectively, related to stock options for infoUSA.com. For the nine months ended September 30, 2001 and 2000, the Company has recorded non-cash charges of \$0.4 million and \$4.1 million, respectively, related to stock options for infoUSA.com. The charges were recorded as an addition to paid-in-capital. During the quarter

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ended September 30, 2001, the Company eliminated the minority interests in its subsidiary, infoUSA.com, through the acquisition of assets. As a result of the purchase, the Company's obligation associated with the subsidiary stock options was eliminated. Therefore, the Company wrote-off \$1.8 million of Unamortized Stock Compensation and reduced the Paid-in Capital components of stockholders equity.

6. RESTRUCTURING CHARGES

During the quarter ended September 30, 2001, the Company recorded restructuring charges of \$3.0 million due to a lease termination agreement and charges related to additional workforce reductions. On July 30, 2001, infoUSA.com, a subsidiary of the Company, negotiated a lease termination agreement for the abandoned Foster City, California facility, and paid \$4.7 million to satisfy the remaining eight year term of the lease agreement. The Company recorded charges of \$2.8 million for costs of the lease settlement not previously accrued and \$0.2 million for workforce reduction charges that included involuntary employee separation costs for approximately 50 employees in administration, sales support and marketing functions.

During the fourth quarter of 2000, the Company recorded restructuring charges totaling \$5.8 million as a part of the Company's overall strategy to reduce costs and continue commitment to its core businesses. The cost containment program included a reduction in the planned investment in the Company's Internet businesses and plans to reduce total headcount. The Company recorded an accrual of \$3.7 million for lease payments for the abandoned Foster City, California facility and an accrual of \$2.1 million for workforce reductions of approximately 350 employees. As of June 30, 2001, employees received cash severance payments totaling \$2.1 million during the first six months of 2001, with no severance payments from the 2000 workforce reductions remaining deferred and payable as of June 30, 2001.

7. ACQUISITION COSTS

During the quarter ended September 30, 2000, the Company recorded charges of \$86 thousand principally related to the Company's acquisition of American Church Lists, idEXEC and Getko, representing costs to integrate these acquired operations into the Company's existing operations. These costs were not directly related to the acquisition of these companies, and therefore could not be capitalized as part of the purchase price. For the nine months ended September 30, 2000, the Company recorded acquisition costs of \$2.3 million, including \$0.9 million of costs described above and \$1.4 million associated with the Company's bid to acquire the consumer database division of R.L. Polk.

8. GAIN ON ISSUANCE OF SUBSIDIARY STOCK

During the nine months ended September 30, 2000, infoUSA.com, a subsidiary of the Company, issued approximately 5.1 million shares of convertible preferred stock for approximately \$22.8 million or \$4.47 per share. As a result of the issuance of the convertible preferred stock, the Company's ownership in infoUSA.com decreased from approximately 83 percent at December 31, 1999 to approximately 67 percent at September 30, 2000 and a gain of \$14.6 million was recorded. No deferred income taxes were recorded due to the gain being a non-taxable transaction. infoUSA.com is an online provider of white and yellow page directory assistance and an Internet destination for sales and marketing tools and information.

9. DISCONTINUED OPERATIONS, NET OF TAX

During December 2000, the Company closed the operations of its VideoYellowPages.com Internet unit. VideoYellowPages.com recorded a loss from discontinued operations for the quarter ended September 30, 2000 of \$0.7

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million, net of income tax benefit of

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\$0.4 million. For the nine months ended September 30, 2000, the Company recorded a loss from discontinued operations related to VideoYellowPages.com of \$2.3 million, net of income tax benefit of \$1.4 million.

10. ACQUISITION

Effective August 30, 2001, the Company eliminated the minority interest of its subsidiary, infoUSA.com, through the acquisition of assets. Total consideration for the acquisition was \$24.7 million, comprised of \$15.7 million of restricted cash, \$3.0 million cash provided by operations and a \$6.0 million subordinated note, bearing 6% interest and payable in two years. Intangible assets recorded as a result of the purchase include goodwill of \$19.6 million.

11. 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.

12. SUBSEQUENT EVENTS

Effective October 1, 2001, the Company acquired the assets of Polk City Directories from Equifax. Polk City Directories provides printed reference guides listing business and residential information. Consideration for the acquisition was \$6.0 million in cash (excluding any acquisition-related costs), funded using existing cash generated from operations. The acquisition will be accounted for using the purchase method of accounting. As part of the acquisition, the Company anticipates recording goodwill and other intangibles totaling approximately \$6 million.

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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 3 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

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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.

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 American Church Lists during March 2000, idEXEC in May 2000 and Getko Direct Response of Canada (Getko) in May 2000:

	THREE MONTHS ENDED SEPT 30, 2001 -----	THREE MONTHS ENDED SEPT 30, 2000 -----
CONSOLIDATED STATEMENT OF OPERATIONS DATA:		
Net sales	100%	100
Costs and expenses:		
Database and production costs	28	34
Selling, general and administrative	38	47
Depreciation and amortization	17	17
Non-cash stock compensation expense	--	2
Restructuring charges	4	--
Acquisition costs	--	--
	-----	-----
Total costs and expenses	88	100
	-----	-----
Operating income (loss)	12	0
Other income (expense), net	(8)	(7)
	-----	-----
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	4	(7)
Income taxes	4	2
	-----	-----
Income (loss) from continuing operations before cumulative effect of change in accounting principle	0	(9)
Discontinued operations, net of tax	--	(1)
Cumulative effect of change in accounting principle, net of tax	--	--
	-----	-----
Net income (loss)	0%	(10)
	=====	=====

OTHER DATA:

SALES BY SEGMENT:

		(in t
Small business	\$ 29,878	\$ 34,274
Large business	38,620	41,802

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Total	\$ 68,498	\$ 76,076
	=====	=====
 SALES BY SEGMENT AS A PERCENTAGE OF NET SALES:		
Small business	44%	45
Large business	56	55
	-----	-----
Total	100%	100
	=====	=====
 Amortization expense of goodwill and related intangibles(1)	 \$ 7,584	 \$ 8,238
	=====	=====
Earnings before, interest, taxes, depreciation and amortization, (EBITDA), as adjusted (2)	\$ 20,136	\$ 14,162
	=====	=====
EBITDA, as adjusted, as a percentage of net sales	29%	19
	=====	=====

Cash Flow Data:

Net cash from operating activities	
Net cash used in investing activities	
Net cash used in financing activities	

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(1) This represents amortization expense recorded by the Company on all intangibles recorded as part of the acquisition of other companies, and excludes amortization related to deferred financing costs, software development costs, and other intangible assets not recorded as part of an acquisition of another company.

(2) "EBITDA, as adjusted" is defined as operating income (loss) adjusted to exclude depreciation, amortization and non-cash stock compensation expenses. EBITDA is presented because it is a widely accepted indicator of a company's ability to incur and service debt and of the Company's cash flows from operations excluding any non-recurring items. However, EBITDA, as adjusted, does not purport to represent cash provided by operating activities as reflected in the Company's consolidated statements of cash flows, is not a measure of financial performance under generally accepted accounting principles ("GAAP") and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP. Also, the measure of EBITDA, as adjusted, may not be comparable to similar measures reported by other companies.

Overview

The Company has supplemented its internal growth through strategic acquisitions. The Company has completed thirteen acquisitions since mid-1996. Through these acquisitions, the Company has increased its presence in the consumer marketing information industry, significantly increased its ability to provide data processing solutions, added two consumer CD-Rom product lines, increased its presence in list management and list brokerage services and

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broadened its offerings of business marketing information.

As a part of these strategic acquisitions, the Company has immediately integrated the operations of the acquired companies into existing operations of the Company. Generally, the results of operations for these acquired activities are no longer separately accounted for from existing activities. The Company cannot report on the results of operations of acquired companies upon completion of the integration as the results are commingled with existing results. Additionally, upon integration of 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. While the results cannot be accurately quantified, a number of the acquisitions have had a significant impact on net sales.

During 1999, operating costs increased significantly due to the Company's execution of the planned expansion of certain Internet initiatives, including infoUSA.com, BusinessCreditUSA.com, VideoYellowPages.com and ListBazaar.com. During the fourth quarter of 2000, the Company reevaluated its Internet Strategy. The Company realized spending was too high on advertising and brand activities that were not profitable. The Company cut back on investments in all four Internet initiatives. The operations of Videoyellowpages.com were discontinued in December of 2000. The Company realized it did not have the resources required to make this idea succeed. The Company cut back dramatically the investment in BusinessCreditUSA.com and ListBazaar.com businesses and have rolled them back into the core business. Leveraging off of the high traffic from the infoUSA.com and our partner's website, we are able to make BusinessCreditUSA.com and List Bazaar.com profitable and successful distribution channels for our proprietary content and Business Credit Reports. We also reduced the staff and infrastructure in infoUSA.com. The issuance of subsidiary stock to outside investors allowed the Company to execute our planned expansion of infoUSA.com as an online provider of white and yellow page directory assistance and an Internet destination for sales and marketing tools and information without affecting working capital of core business operations. The dramatic changes in the Internet market required us to focus on preserving the remaining investment and revise our strategy for turning infoUSA.com into a profitable subsidiary. infoUSA.com reduced its staff from approximately 85 people to 14 people by the end of June 2001, with most of the administrative, overhead and support functions being rolled back under the parent company.

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In summary, EBITDA, as adjusted, increased from \$42.5 million for the nine months ended September 30, 2000 to \$68.4 million for the nine months ended September 30, 2001, principally due to the following: 1) reducing the investment for the four Internet initiatives late in 2000 previously described resulting in cost savings of approximately \$17.0 million, and 2) staffing reductions (excluding staffing reductions related to the Internet initiatives described above) initiated between December 2000 and September 2001 totaling 24% of the total workforce resulting in cost savings of approximately \$8.7 million.

Net sales

Net sales of the Company for the quarter ended September 30, 2001 were \$68.5 million, a decrease of 10% from \$76.1 million for the same period of 2000. Net sales for the nine months ended September 30, 2001 were \$213.3 million, a decrease of 9% from the \$235.3 million for the same period of 2000. The decrease

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in net sales is principally due to softer customer demand and a general slow-down in the United States economy.

Net sales of the small business segment for the quarter ended September 30, 2001 were \$29.9 million, a 13% decrease from \$34.3 million for the same period of 2000. The decrease in net sales is principally due to softer customer demand, a general slow-down in the United States economy and the tragic events of September 11. \$1.8 million of the decrease specifically related to the sale of content to list brokers and resellers. Net sales of the small business segment for the nine months ended September 30, 2001 were \$96.8 million, a 12% decrease from the \$110.2 million for the same period of 2000. A significant portion of the decrease in net sales for the period, is due to a \$7.5 million decrease in the sale of content to list brokers and resellers who are more adversely affected by the economic downturn. 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 net sales amounts are not fully comparable due to the acquisition of American Church Lists in March 2000 and Getko Direct Response of Canada (Getko) in May 2000. The Company immediately integrated the operations of the acquired companies into existing operations. The Company cannot report the results of operations of acquired companies upon completion of the integration as the results are "commingled" with existing results. Additionally, upon integration of 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.

Net sales of the large business segment for the quarter ended September 30, 2001 were \$38.6 million, a 8% decline from \$41.8 million for the same period of 2000. Net sales of the large business segment for the nine months ended September 30, 2001 were \$116.4 million, a 7% decrease from the \$125.1 million for the same period of 2000. The decrease in net sales is principally due to softer customer demand related to the general slow-down in the United States economy and the adverse impact from a postal rate increase that temporarily reduced mail advertising activity by its customers. These amounts are not fully comparable due to the acquisition of idEXEC in May 2000. The Company immediately integrated the operations of idEXEC into existing operations and cannot report the results of idEXEC separately upon completion of the integration as the results are "commingled" with existing results. Additionally, upon integration of 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.

Database and production costs

Database and production costs for the quarter ended September 30, 2001 were \$19.0 million, or 28% of net sales, compared to \$26.0 million, or 34% of net sales for the same period of 2000. For the nine months ended September 30, 2001, database and production costs were \$59.9 million, or 28% of net sales, compared to \$77.4 million or 33% of net sales for the same period in 2000. The decrease in database and production costs as a percentage of net sales is primarily due to headcount reductions and favorable changes in product sales mix in the large business segment and reduced costs associated with the Internet businesses initiated by the Company in December 2000. Database and production costs for the large business segment were 23% of net sales for the nine months ended September 30, 2001, a decrease of \$6.5 million, compared to the rate of 26% of net sales, for the same period of 2000. Database and production costs for corporate activities, decreased \$3.6 million for the nine months ended September 30, 2001

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compared to the same period of 2000, due to decreased data compilation and data acquisition costs. Database and production costs for the Internet businesses decreased \$3.8 million to \$0.9 million for the nine months ended September 30, 2001, compared to \$4.7 million for the same period of 2000.

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Selling, general and administrative expenses

Selling, general and administrative expenses for the quarter ended September 30, 2001 were \$26.3 million, or 38% of net sales, compared to \$35.8 million, or 47% of net sales for the same period of 2000. For the nine months ended September 30, 2001, selling, general and administrative expenses were \$80.3 million, or 38% of net sales, compared to \$113.1 million, or 48% of net sales, for the same period of 2000. The decrease in selling, general and administrative expenses, is principally due to: 1) reduced marketing and advertising costs, principally related to the various Internet initiatives, and 2) headcount reductions between December 2000 and June 2001. Marketing and advertising costs for the nine months ended September 30, 2001, were \$9.5 million, or 14% of net sales, compared to \$26.3 million, or 35% of net sales, for the same period of 2000. Marketing and advertising expenses related to the various Internet divisions were \$0.2 million for the nine months ended September 30, 2001, reflecting a decrease of \$12.3 million, or 18% of net sales, compared to \$12.5 million for the same period of 2000. Marketing and advertising expenses related to the core businesses were \$4.5 million lower for the nine months ended September 30, 2001 compared to the same period of 2000. The Company has reduced total headcount from 2,166 in September 2000, to 1,560 as of September 30, 2001. Salaries and wages for marketing and general administration for the nine months ended September 30, 2001 were \$45.7 million, or 21% of net sales, a reduction of \$13.5 million compared to \$59.2 million, or 25% of net sales, for the same period of 2000.

Depreciation and amortization expenses

Depreciation and amortization expenses for the quarter ended September 30, 2001 were \$11.7 million, or 17% of net sales, compared to \$13.1 million, or 17% of net sales for the same period of 2000. For the nine months ended September 30, 2001, depreciation and amortization expenses were \$36.7 million, or 17% of net sales, compared to \$38.8 million, or 16% of net sales for the same period in 2000. The decrease in depreciation and amortization expenses is principally due to certain intangible assets and website development costs becoming fully amortized.

Non-cash stock compensation expense

During the quarter ended September 30, 2001, the Company recorded a non-cash charge of \$0.1 million, or less than 1% of net sales, compared to \$1.2 million, or 2% of net sales, for the same period of 2000, related to the issuance of stock options for infoUSA.com, a subsidiary of the Company. For the nine months ended September 30, 2001, non-cash stock compensation expenses were \$0.4 million, or less than 1% of net sales, compared to \$4.1 million, or 2% of net sales for the same period of 2000. The decrease in non-cash stock compensation expense is principally due to the workforce reduction of infoUSA.com, described above in the "Overview" section. Additionally, due to the fact that the Company eliminated the minority interest in its infoUSA.com subsidiary through the acquisition of assets, it will not incur non-cash stock compensation expense related to the options for the fourth quarter 2001 and subsequent periods.

Restructuring costs

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During the quarter ended September 30, 2001, the Company recorded restructuring charges of \$3.0 million due to a lease termination agreement and charges related to workforce reductions. On July 30, 2001, infoUSA.com, a subsidiary of the Company, negotiated a lease termination agreement for the abandoned Foster City, California facility, and paid \$4.7 million to satisfy the remaining eight year term of the lease agreement, and recorded additional charges of \$2.8 million for costs of the lease settlement not previously recorded. The Company also recorded \$0.2 million for workforce reduction charges that included involuntary employee separation costs for approximately 50 employees in administration, sales support and marketing functions.

During the fourth quarter of 2000, the Company recorded restructuring charges totaling \$5.8 million as a part of the Company's overall strategy to reduce costs and continue commitment to its core businesses. The cost containment program included a reduction in the planned investment in the Company's Internet businesses and plans to reduce total headcount. The Company recorded an accrual of \$3.7 million for lease payments for the abandoned Foster City, California facility and an accrual of \$2.1 million for workforce reductions of approximately 350 employees. Employees received cash severance payments totaling \$2.1 million during the first six months of 2001, with no severance payments remaining deferred and payable as of June 30, 2001.

Acquisition costs

During the quarter ended September 30, 2000, the Company recorded charges of \$86 thousand principally related to the Company's acquisition of American Church Lists, idEXEC and Getko, representing costs to integrate these acquired operations into the Company's existing operations. These costs were not directly related to the acquisition of these companies, and therefore could not be capitalized as part of the purchase price.

For the nine months ended September 30, 2000, the Company recorded acquisition costs of \$2.3 million, including \$0.9 million principally related to the Company's acquisition of American Church Lists, idEXEC and Getko, representing costs to integrate these

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acquired operations into the Company's existing operations. The Company also recorded \$1.4 million of costs associated with the Company's bid to acquire the consumer database division of R.L. Polk.

Operating income

Including the factors previously described, the Company had operating income of \$8.3 million, or 12% of net sales for the quarter ended September 30, 2001, compared to an operating loss of \$0.2 million, or less than (1)% of net sales for the same period in 2000. For the nine months ended September 30, 2001, the Company had operating income of \$31.3 million, or 15% of net sales, compared to an operating loss of \$0.4 million, or less than (1)% of net sales for the same period in 2000.

Operating income for the small business segment for the quarter ended September 30, 2001 was \$13.7 million, or 46% of net sales, as compared to \$9.6 million, or 28% of net sales for the same period in 2000. For the nine months ended September 30, 2001, operating income for the small business segment was \$46.6 million, or 48% of net sales, compared to \$31.4 million, or 29% of net sales for the same period of 2000. The increase in operating income as a percentage of net sales is principally due to staffing reductions previously

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described and the Company's cost reduction efforts related to various Internet initiatives. Substantially all costs related to the Internet divisions are included in the small business segment. See the sections "Overview" and "Selling, general and administrative expenses" for additional information describing the Internet divisions and the effects on the results of operations.

Operating income for the large business segment for the quarter ended September 30, 2001 was \$18.0 million, or 47% of net sales, as compared to \$19.0 million, or 46% of net sales for the same period in 2000. For the nine months ended September 30, 2001, operating income for the large business segment was \$58.8 million or 51% of net sales, compared to \$55.8 million, or 45% of net sales for the same period in 2000. The increase in operating income as a percentage of net sales is principally related to the Company's staffing reductions previously described and a change in the product sales mix previously described in the section "Database and production costs."

Other income (expense), net

Other income (expense) net, was \$(5.1) million, or (8)% of net sales, and \$(5.2) million, or (7)% of net sales, for the quarters ended September 30, 2001 and 2000, respectively. For the nine months ended September 30, 2001, other income (expense) net, was \$(18.1) million, or (9)% of net sales, compared to \$(1.7) million, or (1)% of net sales for the same period of 2000. Other income (expense) is comprised of interest expense, investment income, minority interest in subsidiary and other income or expense items which do not represent components of operating income (expense) of the Company.

Interest expense was \$5.9 million and \$6.7 million for the quarters ended September 30, 2001 and 2000, respectively. For the nine months ended September 30, 2001 and 2000, interest expense was \$19.3 million and \$20.0 million, respectively. Investment income was \$0.2 million and \$0.4 million, for the quarters ended September 30, 2001 and 2000, respectively. For the nine months ended September 30, 2001 and 2000, interest income was \$0.9 million and \$0.8 million, respectively.

During the year 2000, infoUSA.com, a subsidiary of the Company, completed additional venture capital financing. For the nine months ended September 30, 2000, the Company recorded a gain of \$14.6 million on the issuance of stock of this subsidiary. The issuance of subsidiary stock to outside investors allowed the Company to continue to execute its planned expansion related to infoUSA.com as an online provider of white and yellow page directory assistance and an internet destination for sales and marketing tools and information, without effecting working capital of existing operations.

Minority interest in (income) loss of subsidiary of \$0.6 million and \$1.1 million for the quarters ended September 30, 2001 and 2000, respectively, represents the unaffiliated investors' share of infoUSA.com's net loss (income) for the period then ended. For the nine months ended September 30, 2001 and 2000, respectively, minority interest in (income) loss of subsidiary of \$0.3 million and \$2.8 million, represents the unaffiliated investors' share of infoUSA.com's net loss (income) for the period then ended.

Income taxes

A provision for income taxes of \$2.9 million and \$1.1 million was recorded for the quarters ended September 30, 2001 and 2000, respectively. For the nine months ended September 30, 2001, a provision for income taxes of \$8.9 million was recorded compared to \$2.8 million recorded for the same period of 2000. The gain the Company recorded on the issuance of subsidiary stock during the nine month period ended September 30, 2000 was not subject to income tax expense. The provisions for income taxes also reflect the inclusion of amortization of certain intangibles in taxable income not deductible for tax purposes.

Discontinued operations, net of tax

During December 2000, the Company closed the operations of its VideoYellowPages.com Internet unit. VideoYellowPages.com recorded revenues of \$0.1 million and operating expenses of \$1.3 million, for a pre-tax operating loss of \$1.2 million and an after-tax loss of \$0.7 million, during the third quarter of 2000. VideoYellowPages.com recorded revenues of \$0.2 million and operating expenses of \$4.0 million, for a pre-tax operating loss of \$3.8 million and an after-tax loss of \$2.3 million, for the nine month period ended September 30, 2000.

Cumulative effect of accounting change, net of tax

During 2000, the Company changed its revenue recognition method for data licensing revenue. Effective January 1, 2000 the Company began to recognize revenue on data license arrangements on a straight-line basis. This change in method was made because a growing proportion of such license revenue is from long-term and continuous access agreements. The Company believes the newly adopted method better reflects the service commitment inherent in its various license agreements. The cumulative effect of the change in method of \$10.3 million is net of income tax benefit of \$3.5 million.

EBITDA, as adjusted

The Company's EBITDA, as adjusted was \$20.1 million, or 29% of net sales for the quarter ended September 30, 2001, and \$14.2 million, or 19% of net sales for the same period in 2000. For the nine months ended September 30, 2001, the Company's EBITDA, as adjusted was \$68.4 million, or 32% of net sales, compared to \$42.5 million, or 18% of net sales for the same period in 2000.

LIQUIDITY AND CAPITAL RESOURCES

General information:

During 1999 in conjunction with the acquisition of Donnelley, the Company negotiated a credit arrangement ("Senior Debt Credit Facility") that includes a Revolving Credit Facility of \$25.0 million, as amended. During 2000, the Company sought and obtained certain modifications to the Credit Facility to permit continued availability of borrowing under such facility. As of September 30, 2001, the Company had no borrowings under the Revolving Credit Facility, with the exception of two outstanding letters of credit in the amount of \$6.3 million reducing the availability under the Revolving Credit Facility to \$18.7 million.

The Company is subject to certain financial covenants in the Credit Facilities, including minimum consolidated interest coverage ratio, maximum consolidated leverage ratio and minimum consolidated EBITDA. Management believes the Company is in compliance with all restrictive covenants of the Company's various debt facilities.

The Company believes that its existing sources of liquidity and cash generated from operations, assuming no significant acquisitions, will satisfy the Company's projected working capital and other cash requirements for at least the next 12 months. To the extent the Company experiences growth in the future, the Company anticipates that its operating and investing activities may use cash. Any such future growth and any acquisitions of other technologies, products or companies may require the Company to obtain additional equity or

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debt financing, which may not be available or may be dilutive.

Consolidated Statements of Cash Flows Information:

As of September 30, 2001, the Company's principal sources of liquidity included cash and cash equivalents of \$2.9 million. As of September 30, 2001, the Company had working capital of \$4.7 million. During the third quarter of 2001, the Company eliminated the minority interests of its subsidiary, infoUSA.com through the acquisition of assets. According to the terms of the purchase agreement, \$15.7 million of restricted cash held by the subsidiary was returned to the minority investors. Therefore, these restrictions on the Company's cash are no longer in effect.

Net cash provided by operating activities during the nine months ended September 30, 2001, totaled \$34.3 million compared to \$34.5 million during the same period of 2000. For the nine months ended September 30, 2000, the Company recorded the receipt of \$14.0 million that represented a customer prepayment on a long-term data license agreement. For the nine months ended September 30, 2001, the Company made cash payments of \$2.1 million for severance payments and \$3.7 million for lease payments on the abandoned Foster City, California facility, described in the "Restructuring costs" section above. Therefore, net cash provided by operating activities, as adjusted for the items described above, totaled \$40.1 million, compared to \$20.3 million for the nine months ended September 30, 2001 and 2000, respectively.

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During the nine months ended September 30, 2001, the Company spent \$3.0 million for additions of property and equipment, \$1.5 million related to software and database development costs, \$1.0 million for the purchase of marketable securities and \$31.2 million on the repayment of long-term debt. During the quarter ended September 30, 2001, the Company eliminated the minority interests in its subsidiary, infoUSA.com, through the purchase of assets for \$16.3 million, comprised of \$15.7 million of restricted cash described above and \$3.0 million, net of \$2.4 million royalties due from the subsidiary. During the nine months ended September 30, 2000, the Company spent \$9.3 million for the acquisitions of businesses. The Company acquired American Church Lists in March 2000 for \$2.1 million, Getko in May 2000 for \$1.7 million and idEXEC in May 2000 for \$5.5 million in cash.

The Company made two voluntary prepayments totaling \$10.0 million on its Senior Debt Credit Facility during the quarter ended September 30, 2001. During the nine months ended September 30, 2001, the Company has made voluntary prepayments of \$16.0 million on its Senior Debt Credit Facility.

During the nine months ended September 30, 2000, the Company received cash proceeds of \$22.8 million on the issuance of stock by its subsidiary infoUSA.com and \$4.2 million from the exercise of stock options.

Consolidated Balance Sheet Information:

Trade accounts receivable decreased from \$58.5 million at December 31, 2000 to \$50.1 million at September 30, 2001, with related days sales outstanding ("DSO") of 71 days compared to 63 days, respectively. The decrease is principally due to the enforcement of stricter credit policies and the performance of more aggressive collection practices.

Intangible assets, net of amortization, decreased from \$296.1 million at December 31, 2000 to \$288.4 million at September 30, 2001. The decrease is

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attributed to the amortization of capitalized software development costs and assets related to the acquisitions described in the "Overview" section. Depreciation and amortization expense totaled \$36.7 million during the nine months ended September 30, 2001. Although, the reduction described above was offset by an increase in goodwill of \$19.6 million, due to the Company's elimination of the minority interests in its subsidiary infoUSA.com, through the purchase of assets.

Accounts payable decreased from \$11.5 million at December 31, 2000 to \$7.3 million at September 30, 2001. The decrease is principally due to decreased spending on marketing and advertising programs for the Internet businesses described in the "Selling, general and administrative expenses" section, and improved cash flows generated by operating activities.

Accrued expenses decreased from \$14.8 million at December 31, 2000 to \$7.7 million at September 30, 2001. The decrease is principally due to: 1) a reduction of \$3.2 million for accrued employee benefit plan contributions, and 2) a net reduction of \$5.8 million in restructuring liabilities described in the "Restructuring costs" section.

Long term debt decreased from \$258.7 million at December 31, 2000 to \$233.8 million at September 30, 2001. The Company made repayments on long-term debt totaling \$31.2 million during the nine months ended September 30, 2001. During the quarter ended September 30, 2001, the Company issued a \$6 million subordinated note, bearing six percent interest and payable in two years, as a part of the elimination of the minority interests in its subsidiary infoUSA.com, through the purchase of assets.

ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 133 requires that all derivatives be recognized as either assets or liabilities in the balance sheet and measured at their fair value. If certain conditions are met, a derivative may be specifically designated as (i) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (ii) a hedge of the exposure to variable cash flows of a forecasted transaction or (iii) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign-currency denominated forecasted transaction. SFAS 133, as amended by Statement of Financial Accounting Standards No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

The Company uses derivative financial instruments to manage the risk of a change in interest rates on \$60.5 million of the debt incurred for the acquisition of Donnelley Marketing in July 1999. The Company does not enter into derivative financial instruments for trading or speculative purposes. The Company adopted SFAS No. 133 effective January 1, 2001. Upon adoption, the Company's

interest rate swap agreement was designated as a cash flow hedge. The Company recorded a transition adjustment at January 1, 2001 of \$0.3 million, net of tax, as an accumulated other comprehensive loss to record the derivative financial instrument on the Company's financial statements. During the nine months ended September 30, 2001, the Company recorded an unrealized loss on the above derivative financial instrument of \$1.2 million, net of tax, as an accumulated

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other comprehensive loss in the stockholders equity section of the Consolidated Balance Sheet. In addition, a charge of \$0.5 million was recorded as interest expense in the other income (expense) section of the Consolidated Statement of Operations.

On July 20, 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets. SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Business combinations accounted for as poolings-of-interests and initiated prior to June 30, 2001 are grandfathered. SFAS 142 replaces the requirement to amortize intangible assets with indefinite lives and goodwill with a requirement for an impairment test. SFAS 142 also requires an evaluation of intangible assets and their useful lives and a transitional impairment test for goodwill and certain tangible assets upon adoption. After transition, the impairment tests will be performed annually. SFAS 142 is effective for fiscal years beginning after December 15, 2001, as of the beginning of the year. For the nine months ended September 30, 2001, the Company has expensed \$22.9 million due to amortization of intangible assets, that under the new accounting rules will not be expensed.

FACTORS THAT MAY AFFECT OPERATING RESULTS

Our Internet strategy is subject to review and revision.

Our Internet strategy is to leverage our proprietary content into multiple vertical market applications and provide marketing solutions for electronic commerce applications. The strategy we introduced in fiscal 2000 -- of being an incubator of Internet database companies -- has been revised to a strategy of developing more efficient and profitable applications of our content through the Internet. We cannot guarantee that our customers will choose to have our products and services delivered to them over the Internet. If we are successful in developing Internet applications, we may face strong competition from current and potential competitors, including other Internet companies and other providers of business and consumer databases. We will review our Internet strategy from time to time and may continue to revise it.

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:

- In consumer sales lead generation products, Acxiom, Experian (a subsidiary of Great Universal Stores, P.L.C. ("GUS")), and Equifax, both directly and through reseller networks.
- In data processing services, Acxiom, May & Speh (a subsidiary of Acxiom), Experian, Direct Marketing Technologies (a subsidiary of GUS), Snyder Communications, Inc. (a subsidiary of Havas Advertising) and HarteHanks, Inc.
- In business sales lead generation products, Experian and Dun's Marketing Services ("DMS"), a division of Dun & Bradstreet. DMS, which relies upon information compiled from Dun & Bradstreet's credit database, tends to focus on marketing to large companies.
- In business directory publishing, from Regional Bell Operating Companies and many smaller, regional directory publishers.
- In consumer products, certain smaller producers of CD-Rom products.

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- Technologies which companies may install and implement in-house as part of their internal IS functions, instead of purchasing or outsourcing such functions.

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.

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We are highly leveraged. If we are unable to service our debt as it becomes due, our business would be harmed.

As of September 30, 2001, we had total indebtedness of approximately \$233.8 million, including \$106.0 million of Notes under an indenture (the "Indenture") and \$108.7 million under a \$195 million Senior Secured Credit Agreement. Substantially all of our assets are pledged as security under the terms of the Credit Agreement. The indebtedness under the Credit Agreement was incurred in connection with our acquisition of Donnelley Marketing in 1999. Our ability to pay principal and interest on the Notes issued under the Indenture and the indebtedness under the Credit Agreement and 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 Agreement 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 Notes issued under the Indenture and the Credit Agreement) or seeking additional equity capital. We may not be able to implement any such measures or obtain additional financing.

The terms of our current indebtedness restrict our ability to take certain actions that fit our business strategy.

Our existing credit facilities contain certain covenants which restrict our ability to:

- Incur additional indebtedness;
- Pay dividends and make certain other similar payments;
- Guarantee indebtedness of others;
- Enter into certain transactions with affiliates;
- Consummate certain asset sales, certain mergers and consolidations, sales or other dispositions of all or substantially all of our assets
- Acquire other companies; and

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- Obtain dividends or certain other payments from our subsidiaries.

These restrictions may impair our ability to take certain actions that fit our business strategy. A breach of any of these covenants could result in an event of default under the terms of our existing credit facilities. Upon the occurrence of an event of default, the lenders could elect to declare all amounts outstanding, together with accrued interest, to be immediately due and payable. If the payment of any such indebtedness is accelerated, our assets may not be sufficient to repay in full the indebtedness under our credit facilities and our other indebtedness. Moreover, if we were unable to repay amounts owed to the lenders under our credit facilities, the lenders could foreclose on our assets that secure the indebtedness.

Under the terms of our current indebtedness, the occurrence of a change of control of infoUSA could have serious adverse financial consequences to us.

If a change of control of infoUSA were to occur, we would in certain circumstances be required to make an offer to purchase all outstanding Notes under the Indenture at a purchase price equal to 101% of the principal amount of the Notes, together with accrued and unpaid interest. There can be no guarantee that, if this were to happen, we would have sufficient funds to purchase the Notes. In addition, a change of control and any repurchase of the Notes upon a change of control may constitute an event of default under our other current or future credit facilities. In that event, our obligations under such credit facilities could be declared due and payable by the lenders, and the lenders may also have the right to be paid for all outstanding obligations under such credit facilities before we repurchase any of the Notes.

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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.

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;

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- 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.

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. 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 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 thirteen acquisitions since mid-1996 and completed the integration of these acquisitions into our existing business by the end of 2000. 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.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is not exposed to significant future earnings or cash flow exposures from changes in interest rates on long-term debt as a significant portion of the Company's debt is at fixed interest rates and the Company has entered into long-term interest rate swap agreements used to reduce the potential impact of changes in interest rates on floating rate debt. The Company is not exposed to material future earnings or cash flow exposures from fluctuations in foreign currency exchange rates as operating results related to foreign operations are not material.

infoUSA INC.
FORM 10-Q
FOR THE QUARTER ENDED
SEPTEMBER 30, 2001
PART II
OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Report on Form 8-K

None

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 10, 2001

/s/ STORMY L. DEAN

Stormy L. Dean, Chief Financial Officer
(principal financial officer)