INFOUSA INC
Form 10-K
March 27, 2002

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001
OR
| | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 000-19598

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infoUSA INC.
(Exact name of registrant as specified in its charter)

DELAWARE	47-0751545
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5711 SOUTH 86TH CIRCLE, OMAHA, NEBRASKA 68127
(Address of principal executive offices)

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

Securities Registered Pursuant to Section 12(b) of the Act:
NONE

Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK, $0.0025 PAR VALUE
SERIES A PREFERRED SHARE PURCHASE RIGHTS
9 1/2% SENIOR SUBORDINATED NOTES DUE 2008

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 the past 90 days. Yes |X| No | |

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K. | |

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of the Common Stock on March 11, 2002 as reported on the NASDAQ National Market System, was approximately $142 million. Shares of Common Stock held by each officer and director and by each person who owns 5% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 11, 2002 registrant had outstanding 50,902,216 shares of Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive proxy statement for the Annual Meeting of Stockholders to be held on May 3, 2002, which will be filed within 120 days of the end of fiscal year 2001, are incorporated into Part III hereof by reference.

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PART I

This Annual Report on Form 10-K, the documents incorporated by reference into the Company's Annual Report to shareholders, and press releases (as well as oral statements and other written statements made or to be made by the Company) contain forward-looking statements that are made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include, without limitation, statements related to potential future acquisitions and our strategy and plans for our business contained in Item 1 "Business," Item 2 "Properties," Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations," and other parts of this Annual Report. Such forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by our management. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include those set forth in this Annual Report under "Factors That May Affect Operating Results," as well as those noted in the documents incorporated by reference into this Annual Report. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the Securities and Exchange Commission, particularly the Quarterly Reports on Form 10-Q and any Current Reports on Form 8-K.

ITEM 1. BUSINESS

COMPANY PROFILE

infoUSA Inc. (the "Company" or "infoUSA") compiles and updates the finest proprietary databases of nearly 14 million businesses and 250 million consumers in the United States and Canada under one roof in Omaha, Nebraska. These databases are compiled from thousands of public sources. We believe our database is the richest in content in the industry. In order to improve the quality of our databases, we make over 17 million phone calls per year to gather additional content and verify existing information. We maintain a staff of approximately 500 full-time employees in Omaha to manage the database. The content changes by more than 65 percent every year, which includes change of address, phone number, SIC code and other content within a record. Our customers need to continually refresh their databases and that is why customers keep coming to us to purchase updated products and services. Recurring revenue is a major component of our revenue, and approximately two-thirds of our revenue is recurring in nature.

More than 4 million customers have used our information in the form of sales leads, prospect lists, mailing labels, printed directories, 3 x 5 cards, computer diskettes, business credit reports, consumer products and on the Internet. Our information is used by businesses for sales leads, mailing lists, credit decisions, market research, competitive analysis and vendor relationships. Consumers use our information for travel planning, job searches, due diligence and multiple other uses. During 2001 and 2002, the Company launched two new proprietary technologies, infoConnect(DM) ONE PASS and Customer Analyzer and Prospect Builder(TM). infoConnect(DM) ONE PASS is an Internet driven data hygiene and enhancement software which was developed to clean our customers house files or other files by matching their databases against our databases online. Customer Analyzer and Prospect Builder(TM) analyzes the customer base of our clients and delivers prospects that have similar characteristics. Due to the fact that infoUSA is the only company with a combined database of 250 million consumers and 14 million businesses, we are the only company that can offer this type of application to our customers.

BUSINESS STRATEGY

There are approximately 14 million businesses in the United States and Canada. All of these businesses are looking for cost effective solutions to find new customers and increase their sales, especially during the slow economy.

Our strategy is to be the leader in proprietary databases of businesses and consumers in the United States and Canada, and produce innovative products and services to meet the needs of these 14 million businesses for finding new prospects and increasing their sales. The information provided by our databases is integral to the decision-making process for businesses. Our organization is divided into five distinct groups; our Database Compilation and Update Group; our Small Business Group; our Consumer Products Group; our Large Customer Group; and our Database Licensing Group, where we license our data to Internet companies and value-added resellers. Finally, we utilize the Internet for distribution of our proprietary content and business credit reports. We believe the Internet complements our core business and in the future will be a dominant distribution channel, which expands our marketplace by allowing small businesses and consumers worldwide to access our databases and purchase information with more frequency.

The Company's introduction of infoConnect and Customer Analyzer and Prospect Builder is targeted toward the small business and sales people. These Internet based technologies will help them find new prospects and grow their sales at a fraction of the cost of their existing prospecting methods, such as trade show, print advertising, billboard, television and radio advertising.

DATABASE COMPILATION AND UPDATE GROUP

It is our strategy to add valuable depth to our proprietary databases. Content is king, and we believe we have the finest content available. We believe that we are the only company that offers proprietary databases of both businesses and consumers, compiled and updated under one roof. We use thousands of sources and hundreds of proprietary processes developed over the last thirty years to compile and enhance our databases. We employ nearly 500 people, and spend over $50 million annually to create, maintain, enhance and deliver our databases.

BUSINESS DATABASE. Our proprietary business database contains information on nearly 14 million businesses in the United States and Canada. The database contains a wealth of information about businesses such as: NAME, ADDRESS, PHONE NUMBER, SIC CODES, NUMBER OF EMPLOYEES, BUSINESS OWNER AND KEY EXECUTIVE NAMES, CREDIT SCORE and SALES VOLUME. We also PROVIDE FAX and TOLL FREE NUMBERS, WEBSITE ADDRESSES, E-MAIL ADDRESSES, HEADLINE NEWS, and PUBLIC FILINGS including liens, judgments and bankruptcies. Our data can be broken down into various product segments such as Small Business Owners, Small Business Owners at Home, Big Businesses and their Corporate Affiliations, Growing Businesses, and Female Business Owners. Additionally, vertical industry data segments are created such as Physicians and Surgeons, Schools, Restaurants, Places of Interest, Churches, and Government Offices.

We compile the business information from over 15,000 sources. Sources such as the yellow pages and telephone directory white pages, are used to identify businesses for inclusion in the database. Other sources, such as primary telephone research surveys, are used to enhance the database with key data elements like names of executives, primary SIC code, number of employees, fax numbers and Internet addresses. Additional sources, such as annual reports, SEC filings and public filings, are used to update the database with liens, judgments, bankruptcies, headline news, commercial debtor data, changes in leadership, address changes, corporate affiliation changes and the like. In addition, we use information licensed from the United States Postal Service's National Change of Address (NCOA) and Delivery Sequence File (DSF) to update and maintain our business database. Accuracy is the most important characteristic of any database, and our database is approximately 95% accurate at any given time, which we believe is the highest degree of accuracy in the industry.

We continuously enhance our databases. In the last year we have increased the number of executive e-mail addresses, toll free numbers, new businesses, web addresses and fax numbers. We continue to add new data content from expanded compilation, verification and acquisition initiatives. The Company has continued to invest in core processes and technologies that enable our customers to access in real-time the most current data possible.

CONSUMER DATABASE. With the acquisition of Donnelley Marketing in 1999, we acquired over 85 years of database compilation technology and proprietary models. We have further built upon this foundation to create what we believe is the most comprehensive and accurate consumer database in the industry. Key elements in our database include names, addresses, phone numbers, age, income, marital status, presence of children, active bank cards, religion, ethnicity, purchasing power, affluence models, length of residence, dwelling type and size, home value/mortgage amount, vehicle data, and dozens of self-reported behavioral and lifestyle elements.

The foundation of the consumer database begins with the compilation of all households listed in telephone directories and other public sources such as real estate records. This core data source is compiled with the highest accuracy standards in the industry. The white page file is then enhanced with over 1.8 billion records from public sources and proprietary third parties to add individuals not listed in the telephone directories and to further enhance the records with demographic and psychographic data required to segment consumer prospects. The end result is a database of approximately 250 million consumers, 115 million households, and 55 million homeowners. In addition, we offer other specialty consumer files including New Homeowners, New Movers, Occupant Addresses, Bankruptcies, Tax Liens and Judgments.

Our e-Shareforce database is comprised of self-reported psychographic and demographic information collected via electronic surveys over the Internet. Information obtained through the Internet is timely, less expensive and the respondents have all provided the information voluntarily. Respondents to the e-survey provide information regarding purchase intention and habits, lifestyle characteristics and product usage. The combination of our traditional Shareforce database and our new e-Shareforce database consists of a total of over 38 million households. Our marketing material

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has expanded our e-Shareforce brand to include many of our other business and consumer niche databases.

The Mastermatch file is the largest, most comprehensive multi-sourced consumer enhancement tool for appending consumer data to our client's customer databases at both a household and individual level. This database allows customers to achieve the highest match rates possible for database-enhancement purposes.

Privacy Issues and Consumer Data. infoUSA utilizes public record information and self-reported information provided by the consumer in order to create marketing solutions for our clients. We do not use any credit history, confidential purchasing or health related data on consumers as a part of our database.

Effect of Internet on Data Compilation. In 2001 we continued to use Internet opt-in consumer surveys, which allow consumers to volunteer lifestyle and buyer behavior information that can be used to assist web marketers in targeting advertising to best meet their needs. This self-reported survey information can be obtained on the Internet with more speed, greater accuracy and at lower cost than mail-based surveys.

PRODUCTS AND SERVICES DERIVED FROM THE DATABASE

We create many products and services from our database to meet the needs of millions of potential customers. From our databases of 14 million businesses in the United States and Canada and 250 million consumers in the United States we produce products such as prospect lists, mailing labels, 3 x 5 cards, diskettes, printed directories, consumer products, business credit reports, and many other products and services. We also offer our information on the Internet through our various websites, such as infoUSA.com, ListBazaar.com, BusinessCreditUSA.com, MrPoll.com and DBLink.com. Our products and data processing services are used by customers identifying and qualifying prospective customers, initiating direct mail campaigns, telemarketing, analyzing and assessing market potential, monitoring the effectiveness of marketing efforts and surveying competitive markets in order to find new customers and increase their sales at low costs. We are organized around four customer groups: Small & Medium Business Group, Consumer Products Group, Large Business Customers Group and the Data Licensing Group. Our products and services are designed for the unique needs of each group.

OUR CUSTOMERS AND POTENTIAL MARKETS

SMALL & MEDIUM BUSINESS GROUP

We estimate our primary potential market to be approximately 6 million small businesses. This group concentrates on the needs of small to medium size businesses, small office and home office businesses and aspiring entrepreneurs. Our products and services help small businesses analyze their existing customers, identify new markets and grow their businesses. The products may also be used to locate suppliers, look up business credit reports and for other marketing and reference purposes. The products and services for the Small Business Group are as follows:

Prospect Lists, Mailing Labels, and Sales Lead Products. These products are used by customers who request specific information and formats, such as mailing labels or diskettes. We produce sales lead generation products using a combination of customized sorting criteria to meet the customer's specific marketing objectives for their geographic area.

Electronic Delivery of Products. We deliver sales lead generation products using a variety of electronic formats, including diskettes formatted for most common software applications, magnetic tape media, DVD's, CD's, and Internet delivery of files through infoUSA.com.

Sales Leads on the Internet. infoUSA.com: Our customers can buy all of our databases on the Internet, 24 hours a day, 7 days a week. The customer has the ability to search the database by any geographical area they have targeted and no minimum order size is required.

Monthly Updates. Our databases change by over 65% annually. As a result, our customers have a need to periodically refresh their customer and marketing databases. That is why we offer a subscription program that provides customers with a prospect database and monthly updates including new leads for the market area, changes to the original database, and a list of companies that have gone out of business. We also offer monthly updates using Internet delivery.

Business Directories and DVD/CD Products. Many of our customers are small businesses that sell to other businesses within a specific geography. They use our printed business directories bundled with the data on DVD/CDs. Our customers use them for lead generation, telemarketing and reference purposes. Our plan is to offer an interface with our web site along with Internet access with these DVD/CDs to offer our customers complete flexibility for one price.

Business Credit Directories and Reports. Our business credit directories include a printed directory bundled with a DVD/CD. The product is used by customers for making credit decisions, verifying company information, assisting in collection support, and identifying potential new customers. Business Credit Reports and other products can also be purchased individually on the Internet, currently three dollars for each report or on a subscription basis.

Customer Analyzer and Prospect Builder. Our research and development efforts over the last two years to offer a complete Internet based sales and marketing tool for small business owners and sales people are bearing fruit. The Internet is an ideal environment for small businesses since it does not require any software installation or updates. This product is still in the development stage but it aims to combine CRM with analysis of existing customers database and generate prospects that look like their preferred customers. The service will also provide customized lead generation, business credit reports and direct mail services through a subcription-based service that is purely web based.

Polk Directories. Since 1870, The Polk City Directory(R) has been the trusted brand for providing residential, demographic, and business data information to small and medium businesses across the U.S. Annually, over 900 versions of the directory are produced and delivered in hard cover book and CD-ROM format. Sales of these products are generated from the 200 plus field sales representatives, 20 plus telemarketing sales representatives, and on-going direct mail programs. Polk Directories' 110,000 customers cover a wide range of industries including: service, financial, and retail businesses.

- The Polk City Directory(R) consists of seven directories in one, designed to help businesses save time by planning sales calls efficiently, saving money by reducing undeliverable mail, and increasing sales by identifying prospects.

- InfoTYME(R), our CD-ROM version of The Polk City Directory(R), allows the customer to quickly search and select prospects, download prospect records into other applications for lead generation programs, and produce labels for telemarketing or direct mail campaigns.

infoUSA acquired Polk Directories in the fourth quarter of 2001. Polk Directories provides us with another major channel for the sales and distribution of related infoUSA directory and list services products. We plan to offer Internet access and more directories in more cities to our subscribers.

CONSUMER & SMALL OFFICE - HOME OFFICE (SOHO) MARKETS GROUP

Consumers need our information for various applications such as directory assistance, job search, travel planning, sales leads and general reference purposes. These products come in the form of DVD/CD and are currently priced between $9.95 and $119.00. The popular labels are Select Phone, PowerFinder, Directory Assistance USA, Caller ID, Yellow Pages USA, Streets USA and Business Credit Ratings USA. Consumer products are sold through over 5,000 retail outlets in North America, including Office Depot, Staples, CompUSA, Best Buy, Costco, Fry's Electronics, Electronics Boutique, Micro Center and Future Shop. A good percentage of the consumers who buy these products register them with us and sign up for a subscription to receive annual renewals.

LARGE BUSINESS GROUP

Our Large Customer group is comprised of Donnelley Marketing and Walter Karl. Donnelley Marketing is one of the nation's leading direct marketing solution providers, targeting medium and large size firms where quality data and customer service count. Our mission is to help businesses find new customers, grow their sales, reduce selling costs and become more profitable. Donnelley's reputation has been built by delivering consistent results to clients for 85 years.

Donnelley Marketing serves a variety of industries including traditional direct marketers, packaged goods, retailers, financial institutions, telecommunications, utilities, technology, fund raising, automotive and catalog companies. Donnelley Marketing maintains over 300 marketing databases, processes over 50 billion records annually, creates 200 custom models each year and delivers personalized customer care to more than 2,000 customers.

Our goal in 2001 was to increase client access to our databases and data processing services while reducing turnaround time and lowering costs. We were pleased to announce the introduction of infoConnect(TM) ONE PASS. infoConnect(TM) ONE PASS is an Internet driven software which performs data cleansing and enhancement services online. In the past, customers used to send the tapes to us and we would match those tapes against our databases and send them back to the customers in days or weeks. Now, they can do it online, 24 hours a day, seven days a week. Not only does it save our customers money, but our fulfillment costs are lower. We are in the process of transitioning our clients to a recurring revenue model through this automated system. This offering is attractive to large, medium and

small organizations.

infoConnect(DM) ONE PASS provides online, real-time data enhancement and file cleansing access to the following databases:

- 250 Million National Consumer Database - the industry's largest and most comprehensive consumer database.
- 14 Million National Business Database - the world's finest business content.
- 15 Million National Privacy Database - provides marketers with the ability to eliminate people who will not respond to their offer.
- All Major USPS Data Hygiene Databases - Donnelley Marketing licenses all five of the major United State Postal Service data hygiene databases.

2001 also proved to be a highly successful year for our client marketing database unit. MarketZone DS, a closed loop, Internet enabled, fully relational database tool for decision support, campaign management and execution system, provided our new clients the ability to identify new prospects and reduce costs while managing their customer relationship. MarketZone DS is an e-CRM (customer relationship management) solution that integrates the entire suite of Donnelley Marketing products to create real-time customer content integration.

CatalogVision(TM), a division of Donnelley Marketing, has been specializing in the catalog marketing industry for over 25 years.

Walter Karl, a division of Donnelley Marketing, provides list management services to a variety of list owners. Our special integrated, targeted marketing programs develop list rental usage in the broadest range of potential markets. With the list brokerage business, Walter Karl sources and sells specialty lists to a wide range of businesses in many industries.

DATABASE LICENSING GROUP

Countless applications exist for infoUSA's business and consumer data. The quality and integrity of our databases are what make infoUSA properties the most reliable and useful for value-added resellers. infoUSA data is behind the scenes of numerous products and services of leading companies in a variety of industries. infoUSA has long been the core data provider for over 90% of Internet directory services including AOL and Yahoo!. The infoUSA database also powers in-car navigation/telematics systems found in select GM, Acura, Lexis and Mercedes vehicles. Leading GIS (geographic information system) and mapping companies incorporate infoUSA data into their products. Most of the country's leading third-party transaction processors and providers of intelligence for businesses and government use infoUSA data to serve the informational needs of their financial clients. Established marketing and analytical companies, like VNU and Claritas, continue to use infoUSA data in their applications.

DISTRIBUTION CHANNELS

We sell our products and services through direct mail, telemarketing and a large team of Account Executives. We also sell through value added resellers and various websites, such as infoUSA.com, DBLink.com, MrPolk.com, ListBazaar.com and BusinessCreditUSA.com. The sales channels used by us vary by product. We currently employ over 200 sales executives who work with our customers.

INTERNET STRATEGY

The Company views the Internet as a dominant and important distribution channel for its information in the future. As the owner of the content, infoUSA is uniquely able to use its content for exploitation of this wonderful channel. We use many website addresses to sell our products and services, such as infoUSA.com, DBLink.com, MrPolk.com, ListBazaar.com and BusinessCreditUSA.com.

During 2002, the Company launched a revolutionary software called Customer Analyzer and Prospect Builder(TM). This Internet based tool will help small business owners and salespeople to find prospects just like their customers. Most business owners don't know what their current customers are like, and how to find prospects just like their customers. This proprietary software developed by the Company takes the guesswork out of finding new prospects. The customer sends the phone numbers of its existing customers to the Customer Analyzer and Prospect Builder(TM) software. The phone numbers can be of businesses or consumers or both. The software matches the phone numbers of the customers to infoUSA's business database of 14 million businesses and 250 million consumers. The business customers are analyzed

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by modeling software that takes into account number of employees, sales volume, credit rating code, years in business etc. The consumer customers are analyzed by such factors as age, income, home value and other characteristics. At the completion of the analysis the customer can see their prospects on the web and choose prospective customers by any zip code, city, state or county. They can preview the names and cherry pick only the prospects they want and save the rest for later. The software also suppresses their existing customers.

infoConnect(DM) ONE PASS is a state-of-the-art, scalable, on-line, real-time system enabling clients to integrate data from multiple touch points across their enterprise. infoConnect presents an elemental evolution in customer integration and sets a new standard in delivering speed, accuracy, and customer information management.

We have websites for all our divisions which are selling their products and the products of other divisions on the web. We are sending approximately 10 million e-mails per month to advertise our web sites.

We have advanced our development as e-infomediary by using the Internet as a valuable tool for data compilation as well as distribution. We have introduced Internet opt-in consumer surveys, where consumers can volunteer lifestyle and buyer behavior that can be used to assist web marketers in targeting advertising to best meet their needs. The opt-in feature also allows us to match online and offline data to form a complete profile of consumer purchase intentions and decisions. This self-reported survey information can be obtained on the Internet with more speed, greater accuracy and at lower cost than mail-based surveys. In this way, we intend to use the Internet to increase productivity, cut data compilation costs and obtain more relevant real-time information in the database. As with the consumer surveys, we are adding self-reported options to the infoUSA.com site in order to enhance our database with more unique and valuable information. For example, businesses will be able to update their own database information online, adding content such as names, titles and e-mail addresses of executives, as well as other demographics.

COMPUTER OPERATIONS AND DATABASE PROTECTION

The Company operates four data centers located in Omaha, Nebraska; Papillion, Nebraska; Carter Lake, Iowa; and Greenwich, Connecticut. The Company also contracts mainframe data processing functions for Donnelley Marketing from an outside vendor. Business continuity is assured through our use of these four separate data center locations. We can reestablish sales, marketing, production and administrative functions at a combination of the data center sites.

The Omaha Data Center supports our Sales Order Entry systems, contact management system, several Internet website systems, electronic data delivery systems, company enterprise systems (e.g. email, file/print servers) and accounting systems. Sales Order Entry and accounting systems run on a midrange IBM AS/400 and two SUN UNIX machines. Contact Management is loaded on a SUN system. The Internet websites reside on approximately 18 SUN and 13 DELL servers. Electronic data delivery systems run on 6 SUN servers. Enterprise systems are driven by DELL servers running Microsoft NT. This center is also the home for the Local and Wide Area Network connectivity for desktop computers in the Omaha facility. Data communications are provided by ATM on an OC3 SHNS ring between the Ralston - Papillion - Carter Lake facilities, a 12 Meg Internet pipe transported on ATM riding a new OC12 SHNS network, and connectivity to the other data centers and remote offices. This center also contains a Nortel Option 81 PBX for telephone and ACD services within the facility. MCIWorldcom and Qwest provide telephone service over diverse access points into the facility. The Omaha data center is protected by a fire suppression system and a battery backup system. Business and financial data is backed up daily and stored off-site.

Our Papillion Data Center contains the data compilation systems, enterprise support systems, and software development platforms. The business database compilation process runs on an IBM AS/400 and utilizes 6 SUN systems to support the Davox predictive dialing program. Software development and testing is done on a mixture of three other IBM AS/400s. The consumer database compilation process utilizes several DELL servers running Microsoft Windows 2000. Enterprise systems are run on large-scale servers running Microsoft NT. Network services to desktop computers and terminals and other data centers are supported in this center. Like the Omaha center, this center also contains a Nortel Option 81 PBX with diverse MCIWorldcom and Qwest telephone service access points into the facility, the ATM OC3 and the OC12 SHNS ring. A fire suppression system, battery backup system, and a diesel generator protect the Papillion center. Data is backed up daily and stored off-site. This facility is staffed with a team of over 80 Information Technology professionals.

The Carter Lake Data Center is home to the business and consumer order fulfillment systems. An IBM AS/400, a DELL server running Microsoft Windows NT and a SUN system, provides fulfillment computer services. Various high-end printers, CDROM, magnetic tape, and diskette devices are used here to produce the customer's product. A Nortel Option 11 PBX provides facility telephone services with connection to Qwest facilities. Data communications have been enhanced by the installation of an ATM ring overlaid on the SHNS service. The Carter Lake center is protected by a fire suppression system and an uninterrupted power supply battery backup system. Data is backed up daily and stored off-

site. This facility is staffed by 20 production, operations, and shipping professionals.

The Greenwich Data Center supports Donnelley Marketing for the receipt of customer files and the creation of all customer outputs. Donnelley Marketing has entered into a computer services agreement with (i)Structure, a subsidiary of Level3, to outsource all of its mainframe processing. (i)Structure provides Donnelley a secure processing environment and state-of-the-art facilities infrastructure with a dedicated mainframe, disk storage, and a combination of virtual, silo, and manual tape. (i)Structure is considered one of the premier mainframe outsourcers in the industry. They focus heavily on providing superior customer service and maintaining high security levels. Mainframe hardware at the Distribution Center, used for customer file processing, is connected to (i)Structure via multiple high speed DS3 data circuits utilizing CNT channel extender technology. Heavy emphasis is placed on quick turnaround, while maintaining a high level of quality control, to ensure that customer needs are being met.

The Greenwich Data Center, in addition to providing mainframe distribution services, houses eight midrange UNIX Servers, five midrange OpenVMS Servers, multiple high-end NT Servers, and a large PC/LAN Network. A Nortel Option 61 PBX provides telephone services for the facility. The facility also maintains direct connectivity to the Internet and a WAN connection to all other Company computer facilities. All midrange and mainframe class computers are used to service direct marketing needs to large and mid-sized clients, many in the fortune 500 marketplace. The mainframe is used in every aspect of direct marketing computer services while the mid-range systems are used in a client server or three tiered architecture to house relational database marketing files. All systems are available on a seven day, twenty-four hours a day basis.

INTELLECTUAL PROPERTY AND OTHER PROPRIETARY RIGHTS

For more than 85 years, Donnelley Marketing, and over the last 30 years, infoUSA have developed a lot of processes, software, techniques and models that are unique, sophisticated and proprietary. Our databases are copyrighted, and we depend on trade secret and non-disclosure safeguards for protection of our intellectual property. We distribute our products under agreements that grant customers a license to use our products in the ordinary course of their businesses and contain terms and conditions prohibiting the unauthorized reproduction of our products. In addition, we generally enter into confidentiality agreements with our management and programming staff and limit access to and distribution of our proprietary information. There can be no assurance that the steps taken by us will be adequate to deter misappropriation of our proprietary rights or independent third party development of substantially similar products and technology. We believe, however, that legal protection of our database and software is less significant than the knowledge and experience of our management and personnel, and their ability to develop and market existing and new products and services to millions of customers.

COMPETITION

The business and consumer marketing information industry is highly competitive. We believe that competition in our industry is based on the quality and comprehensiveness of the information provided, the ability to deliver the information in products and formats that the customer needs, the distribution channel and to a lesser extent, on the pricing of information products and services. We also believe that the ability to provide proprietary consumer and business databases along with data processing and database marketing services is a key competitive advantage. A number of competitors are active in specific aspects of our business. In business sales lead products and credit report market, we face competition primarily from Dun & Bradstreet. Dun & Bradstreet, relies upon information compiled from its credit database. In consumer sales lead products, we compete primarily with Acxiom, Experian and Equifax, both directly and through reseller networks. In data processing services, we compete primarily with Acxiom, Experian and Harte-Hanks Data Technologies.

EMPLOYEES

As of December 31, 2001, we employed a total of 1,896 people on a full-time basis. None of our employees is represented by a labor union or is the subject of a collective bargaining agreement. We have never experienced a work stoppage and believe that our employee relations are good.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The current executive officers of the Company are as follows:

NAME	AGE	POSITION
Vinod Gupta..............	55	Chairman of the Board and Chief Executive Office
Stormy L. Dean...........	44	Chief Financial Officer
Scott C. Roberts..........	36	Corporate Controller
Fred Vakili	48	Chief Administration Officer
Allen F. Ambrosino........	58	President, Donnelley Marketing
D. Joseph Thayer..........	35	President, Small Business Group
Monica Messer............	39	President and Chief Information Officer, Databas
William L. Kerrey.........	53	Senior Vice President, Licenses
Ed C. Mallin	52	President, Walter Karl
Michael J. Morreale	37	Vice President, Donnelley Marketing
Hans A. Vermandel	49	Vice President, Donnelley Marketing

Vinod Gupta is the founder of the Company and has been Chairman of the Board of the Company since its incorporation in 1972. Mr. Gupta served as Chief Executive Officer of the Company from the time of its incorporation in 1972 until September 1997 and since August 1998. Mr. Gupta holds a B.S. in Engineering from the Indian Institute of Technology, Kharagpur, India, and an M.S. in Engineering and an M.B.A. from the University of Nebraska.

Stormy L.Dean has served as Chief Financial Officer since January 2000. He has also served as the Corporate Controller from September of 1998 until January 2000 and as the acting Chief Financial Officer from January 1998 to August 1998. From August 1995 to September 1998, Mr. Dean served as the Company's tax director. Prior to that, Mr. Dean worked in the Tax Department of Peter Kiewit Sons Inc., a construction and telecommunications company, from January of 1990 until joining the Company in August of 1995. Mr. Dean holds a B.S. in Accounting from the University of Nebraska at Omaha, an M.B.A from the University of Nebraska at Omaha, and a Certified Public Accountant certificate.

Scott C. Roberts has served as Corporate Controller since joining the company in February 2000. From August 1995 until February 2000, Mr. Roberts was the controller for the Life Cycle Services division of Inacom Corp, a technology management services company headquartered in Omaha, Nebraska. From May 1991 until August 1995 Mr. Roberts was the Director of Internal Audit for First National of Nebraska, Inc., a multi-billion dollar bank holding company. Mr. Roberts holds a B.S. in Accounting from the University of Nebraska at Omaha and is a Certified Public Accountant (inactive registrant) in the state of Nebraska.

Fred Vakili has served as Executive Vice President of Administration and Chief Administrative Officer since August of 1998. Mr. Vakili served as Senior Vice President of Special Projects from October 1997 to August 1998, as Senior Vice President of Value Added-Resellers Group and Canada Operations from May 1987 to October 1997, and as Senior Vice President of various Company divisions from 1985 to 1987. Mr. Vakili joined the Company in 1985 as the Product Manager for the Directory Group. Mr. Vakili holds a B.S. in Industrial Engineering and Management from Iowa State University.

Allen F. Ambrosino has served as President of Donnelley Marketing since September 2000, as Executive Vice President of Donnelley Marketing from July 1999 to September 2000, and as President of Database America (DBA) from November 1991 to July 1999. The Company acquired DBA in February 1997. Mr. Ambrosino holds a B.S. in Business Administration from Fairleigh Dickinson University.

DJ Thayer has served as President of the Small Business Group since May 1999, as Senior Vice President from October 1997 to May 1999, and as a Vice

President and General Manager since joining the Company in 1993. Prior to that, Mr. Thayer worked for US West, Inc., and as a legislative aide in the U.S. House of Representatives. Mr. Thayer holds a B.A. in Political Science from the University of Nebraska, and an M.B.A. from Auburn University.

Monica Messer has served as President of the Database and Technology Group and Chief Information Officer of the Company since February 1997, and served as a Senior Vice President of the Company from January 1996 to January 1997. Ms. Messer joined the Company in 1983 and has served as a Vice President of the Company since 1985. Ms. Messer holds a B.S. in Business Administration from Bellevue University.

William L. Kerrey has served as Senior Vice President, Licenses since August 1994, and as a Vice President from 1989 to August 1994. Mr. Kerrey holds a B.S. in Economics, a B.S. in Spanish and an M.S. in Agronomy from the University of Nebraska.

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Edward C. Mallin has served as President of Walter Karl since June 1998, as Executive Vice President of the National Accounts Division from January 1997 to June 1998 and as President of Compilers Plus from January 1990 to May 1998. Prior to that, Mr. Mallin was Executive Vice President of Compilers Plus which the Company acquired in January 1990. Mr. Mallin holds a B.A. in History from the University of Bridgeport and an M.A. in Business Administration from New York University.

Michael J. Morreale has served as Executive Vice President and Chief Operating Officer of Donnelley Marketing since July 1999. Prior to the Company's acquisition of Donnelley Marketing in July 1999, Mr. Morreale held the position of Senior Vice President, General Manager from April 1997. Mr. Morreale was responsible for leading Donnelley Marketing's sales, marketing, and operations functions. Since 1987, Mr. Morreale has held various corporate, financial and operating positions in the information industry. Mr. Morreale is a summa cum laude graduate of Long Island University and is a graduate of Columbia University's Graduate School of Business Senior Executive Program.

Hans A. Vermandel has served as Vice President and General Manager of Donnelley Marketing since January 2001, and as Senior Vice President and National Sales Manager of Donnelley Marketing from July 1999 to January 2001. Mr. Vermandel served as Vice President and National Sales Manager for the Company's National Accounts division from September 1998 to July 1999, and as a Regional Vice President and Regional Sales Manager from March 1994 to September 1998. Before joining the Company in March 1994, Mr. Vermandel spent 18 years at the Dun & Bradstreet Corporation in a variety of sales and sales management capacities. Mr. Vermandel holds B.S. degrees in both Marketing and Management from The University of Pennsylvania, Wharton School of Economics and Finance.

ITEM 2. PROPERTIES

Our headquarters are located in a 148,000 square foot facility in Omaha, Nebraska, where we perform sales and administrative activities. Order fulfillment and shipping is conducted at our 30,000 square foot Carter Lake, Iowa facility, which is located 15 miles from our headquarters. Administration and management are also located in a 24,000 square foot facility in Omaha, Nebraska, which is adjacent to our sales and administration facility. Data compilation, telephone verification, data and product development, and information technology services are conducted at our 130,000 square foot Papillion, Nebraska facility which is located about 5 miles from our headquarters. Donnelley Marketing catalog sales operations are performed in a 40,000 square foot location in Marshfield, Wisconsin. We own these facilities, as well as adjacent land at certain locations for possible future expansion.

In addition, we lease a 69,000 square foot facility in Greenwich, Connecticut which lease expires in September 2003. The Greenwich, Connecticut facility houses various Donnelley Marketing sales and operations functions, and serves as one of our data centers. Donnelley Marketing also leases a 60,000 square foot facility in Ames, Iowa, which houses consumer database and client services operations. Donnelley Marketing is currently headquartered in Omaha, Nebraska. We also lease sales office space at approximately 45 different locations in the United States, Canada and the United Kingdom, the aggregate rental obligations of which are not significant.

ITEM 3. LEGAL PROCEEDINGS

During 2001, the Company settled legal issues totaling $1.1 million in connection with arbitration of two contractual disputes.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our Common Stock, $0.0025 par value, is traded on the NASDAQ National Market System under the symbol IUSA.

The following table sets forth the high and low closing prices for our Common Stock during each quarter of 2001 and 2000.

COMMON STOCK

	HIGH	LOW
2001		
Fourth Quarter....	$ 6.94	$ 4.00
Third Quarter.....	$ 6.75	$ 3.84
Second Quarter....	$ 6.00	$ 3.95
First Quarter.....	$ 5.13	$ 2.25
2000		
Fourth Quarter...	$ 4.69	$ 2.06
Third Quarter....	$ 8.38	$ 4.81
Second Quarter...	$ 9.31	$ 4.75
First Quarter....	$ 17.19	$ 9.13

As of March 11, 2002, there were 133 stockholders of record of the Common Stock, and an estimated additional 4,500 stockholders who held beneficial interests in shares of common stock registered in nominee names of banks and brokerage houses.

We have not declared or paid any cash dividends on our capital stock. We intend to retain future earnings to fund the development and growth of our business and, therefore, do not anticipate paying cash dividends within the foreseeable future. Any future payment of dividends will be determined by our Board of Directors and will depend on our financial condition, results of operations and other factors deemed relevant by our Board of Directors. Existing credit agreements generally prohibit the payment of dividends or other distributions with respect to our common stock.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data for, and as of the end of, each of the years in the five-year period ended December 31, 2001 are derived from the Company's audited Consolidated Financial Statements and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K. The Company has made several acquisitions since 1997 that would affect the comparability of historical data. See Management's Discussion and Analysis of Financial Condition and Results of Operations. The Consolidated Financial Statements as of December 31, 2001 and 2000, and for each of the years in the three-year period ended December 31, 2001, are included elsewhere in this Form 10-K.

	YEAR ENDE		
	2001	2000	
		(IN THOUSANDS,	
CONSOLIDATED STATEMENT OF OPERATIONS DATA:			
Net sales	$ 288,738	$ 305,668	$ 2
Costs and expenses:			
Database and production costs	80,880	101,831	
Selling, general and administrative	112,402	149,721	1
Depreciation of operating assets	17,873	20,005	
Amortization of intangible assets (1)	30,254	32,190	
Impairment of assets(2)	--	2,135	
Acquisition costs(3)	493	2,287	
Non-cash stock compensation	448	3,113	
Restructuring charges(4)	4,899	5,800	
Provision for litigation settlement(5)	1,104	--	
In-process research and development(6)	--	--	
Total costs and expenses	248,353	317,082	2
Operating income (loss)	40,385	(11,414)	
Other income (expense):			
Investment income	953	1,250	
Interest expense	(25,285)	(26,651)	(
Minority interest income	282	6,294	
Gain on issuance of subsidiary stock(7)	--	14,634	
Other	--	--	
Income (loss) from continuing operations before income taxes, extraordinary item and cumulative effect of change in accounting principle	16,335	(15,887)	
Income tax expense	11,371	1,320	
Income (loss) from continuing operations before extraordinary item and cumulative effect of a			

change in accounting principle	4,964	(17,207)	
Loss from discontinued operations (8)	--	(4,160)	
Extraordinary item, net of tax (9)	--	--	
Cumulative effect of a change in accounting principle, net of tax (10)	--	(10,266)	
Net income (loss)	$ 4,964	$ (31,633)	$
Basic earnings (loss) per share from continuing operations	$ 0.10	$ (0.34)	$
Diluted earnings (loss) per share from continuing operations	$ 0.10	$ (0.34)	$
Basic earnings (loss) per share	$ 0.10	$ (0.63)	$
Diluted earnings (loss) per share	$ 0.10	$ (0.63)	$
Weighted average shares outstanding - basic	50,651	50,304	
Weighted average shares outstanding - diluted	50,651	50,304	
OTHER DATA:			
Earnings before interest, taxes, depreciation and amortization ("EBITDA"), as adjusted(11)	$ 88,960	$ 46,029	$
CASH FLOW DATA:			
Net cash provided by operating activities	$ 54,549	$ 36,151	$
Net cash used in investing activities	(32,028)	(29,491)	(2
Net cash from (used in) financing activities	(39,832)	4,187	1

	DECE		
	2001	2000	
CONSOLIDATED BALANCE SHEET DATA:			
Working capital	$ (3,670)	$ 19,943	$
Total assets	419,088	463,545	4
Long-term debt, including current portion	225,670	258,652	2
Stockholders' equity	95,797	90,970	1

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(1) Effective July 1, 2001, the Company adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 141, "Business Combinations," and certain provisions of SFAS No. 141, "Goodwill and Other

Intangible Assets." As required by SFAS 141 and SFAS 142, goodwill of $23.6 million resulting from the acquisitions of the Polk City Directories business and the minority interests of infoUSA.com are not subject to amortization.

(2) During 2000, the Company recorded a write-down of $2.1 million for certain capitalized software development costs, fixed assets related to the abandoned infoPIX business photograph project, as well as proposed public offering and leasehold improvement costs of infoUSA.com, a subsidiary of the Company.

During 1999, the Company recorded a write-down of $3.9 million on the Company's existing consumer database due to the acquisition of Donnelley Marketing and a write-down of $1.7 million on leasehold improvements and in-process construction projects due to the move of the Company's data processing operations from Montvale, NY to Greenwich, CT.

(3) Includes the following acquisition costs: 1) $0.5 million for the acquisition of Polk City Directories from Equifax, Inc (2001) 2) $1.8 million for the attempted acquisition of the consumer database division of R.L. Polk and $0.5 million related to the acquisitions of idEXEC, American Church Lists and Getko Direct Response (2000) 3) $4.2 million associated with the acquisition and integration of Donnelley Marketing (1999), 4) $3.0 million of costs associated with the Company's bid to acquire Metromail Corporation and $0.6 million associated with the Company's offering to sell Common Stock which was not completed (1998), and 5) $2.6 million associated with the acquisition and integration of DBA Holdings, Inc. ("DBA") and Pro CD (1997). These costs are not direct costs of acquisition. Rather, these are general and administrative costs incurred in connection with the integration of these businesses.

(4) During 2001, the Company recorded the following restructuring charges: 1) $2.1 million severance costs for approximately 265 employees terminated during 2001, and 2) estimated lease termination costs of $2.8 million associated with the infoUSA.com Foster City, California location.

During 2000, the Company recorded the following restructuring charges: 1) $2.1 million severance costs for approximately 350 employees terminated during December 2000, and 2) estimated lease termination costs of $3.7 million associated with the infoUSA.com Foster City, California location.

During 1998, the Company recorded the following restructuring charges: 1) $1.4 million related to the Company's compilation and sales activities for new businesses, and 2) $1.2 million related to certain cost reduction measures enacted by the Company.

(5) During 2001, the Company settled legal issues totaling $1.1 million in connection with arbitration of two contractual disputes.

During 1998, the Company incurred $4.5 million in damages awarded to Experian Information Solutions, Inc. in connection with arbitration of a contractual dispute.

(6) Includes the following charges for purchased in-process research and development costs associated with the acquisitions of Walter Karl, Inc. of $3.8 million (1998), DBA of $49.2 million (1997), and Pro CD of $4.3 million (1997).

(7) During 2000 and 1999, infoUSA.com, completed its first and second rounds of venture capital financing. As a result of the issuance of common stock of this subsidiary, the Company recorded gains of $14.6

million and $8.9 million, respectively, on the transactions.

(8) During December 2000, the Company discontinued the operations of its VideoYellowPages.com Internet unit and recorded a loss of $4.2 million, net of tax. The loss is comprised of two components: 1) the loss of its results of operations of $3.4 million, net of tax for the full fiscal year, and 2) charges totaling $0.8 million, net of tax, for asset impairments. The loss from this discontinued operation for 1999 was $1.5 million, net of tax.

(9) During 1999, the Company repurchased $9.0 million of its Senior Subordinated Notes. As part of the repurchase, the Company recorded a net gain of $0.1 million.

(10) 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 of accounting

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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. Assuming the above described revenue recognition policy had been implemented on January 1, 1998, pro forma consolidated net sales, net income from continuing operations and net income from continuing operations per share would have been as follows:

	FOR THE YEARS ENDED DECEMBER 31, 1999	FOR THE YEARS ENDED DECEMBER 31, 1998
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Net sales.......................	$ 261,466	$ 226,754
Net income from continuing operations.....................	$ 21,812	$ 965
Basic earnings per share.........	$ 0.45	$ 0.02
Diluted earnings per share.......	$ 0.45	$ 0.02

(11) "EBITDA, as adjusted" is defined as operating income (loss) adjusted to exclude depreciation and amortization, impairment of assets, non-cash stock compensation expense and in-process research and development charges. 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

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

Operating costs increased significantly from 1999 to 2000, due to our execution of the planned expansion of certain Internet initiatives, including infoUSA.com, BusinessCreditUSA.com, Videoyellowpages.com and ListBazaar.com. Most of the operating cost increase was due to selling, general and administrative expenses, whereas database and production costs increased moderately. For the year ended December 31, 2000, net sales for the four Internet divisions increased $10.0 million, or 64% from the year ended December 31, 1999, although total operating costs for the Internet divisions increased $33.9 million to $41.3 million, or 457% from the year ended December 31, 1999. Marketing costs specific to the Internet initiatives represent the principal source of the increase.

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, as the Company realized it did not have the resources required to make this idea succeed. The Company dramatically cut back the marketing expenses in BusinessCreditUSA.com and ListBazaar.com. businesses and rolled them back into the core business. Leveraging off of the high traffic from the infoUSA.com and our partner's website, we have been able to make BusinessCreditUSA.com and List Bazaar.com profitable.

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 without affecting working capital of core business operations. However, the dramatic changes in the Internet market required us to focus on preserving the remaining investment and revise our strategy to that of turning infoUSA.com into a profitable subsidiary. infoUSA.com reduced its staff from approximately 85 people to 15 people by the end of 2000, with most of the administrative, overhead and support functions being rolled back under the parent company. Effective August 30, 2001, the Company eliminated the minority interest of infoUSA.com, through the acquisition of assets. For the year ended December 31, 2001, operating costs for the 3 remaining Internet divisions decreased $35.1 million to $6.2 million, from the year ended December 31, 2000.

During 2001, the large business segment continued to experience softer customer demand due to the macroeconomic downturn that began in the fourth quarter of 2000. As a result, some of its Fortune 1000 customers were impacted by budgetary constraints and forced to postpone capital spending decisions. Therefore, the large business segment cut costs to be in line with reduced revenue expectations. The large business segment has reduced its operating cost structure and is well positioned to continue to focus on expense control and profitable revenue growth through the development and introduction of innovative new products. These include the recently introduced infoConnect(DM) ONE PASS that provides for automated data enhancement and file cleansing services, and MarketZone DS, a premier e-CRM solution that integrates the entire suite of Donnelley products to create a real-time customer content integration and decision support tool.

The Company had previously made certain disclosures relative to the continuing results of operations of acquired companies where appropriate and possible. However, the Company has immediately integrated the operations of the acquired companies into existing operations of the Company for all acquisitions completed since 1997. 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.

CRITICAL ACCOUNTING POLICIES

Our significant accounting policies are described in Note 2 to the audited Consolidated Financial Statements. Of those policies, we have identified the following to be the most critical because they are the most important to our portrayal of our results of operations and financial condition and they require management's most difficult, subjective or complex judgments:

- Revenue recognition and related estimates of valuation allowances for doubtful accounts, sales returns and other allowances;

- Database acquisition, development and maintenance expenses; and

- Valuation of long-lived and intangible assets and goodwill.

Revenue recognition. Our revenue has historically been derived predominantly through the sale of customized sales lead generation products. We have successfully capitalized on new markets and applications for our proprietary databases, as our company expanded product and service offerings. We began to recognize significant revenue from data processing services in 1997, following the acquisition of Database America and continued expanding our data processing revenue with the acquisition of Donnelley Marketing in July of 1999. The acquisition of Donnelley Marketing enhanced our proprietary consumer database and database marketing services. The merger made us the only company in our industry to offer proprietary business and consumer data, data processing, and database marketing services and gave us the ability to offer complete solutions and fulfill substantially all the database, data processing, and database marketing needs of our Fortune 1000 customers. With the expansion of our Consumer Products Division, and the acquisition of Pro CD and Digital Directory Assistance, revenue from consumer CD-Rom products increased substantially between 1993 and 1997. Retail sales of consumer products generate leads for our subscription sales department which is highly profitable. Walter Karl was acquired in 1998 and combined with JAMI Marketing Services to form what is now know as Walter Karl, our list brokerage business. Finally, the Company has recognized strong Internet license revenue and Internet content sales since 1999 and believes there is significant opportunity to expand the market for our products and services over the Internet. We estimate that no customer represented greater than approximately 4% of net sales in 2001. As described below, significant management judgments and estimates must be made and used in connection with the revenue recognized in any accounting period.

Approximately 53% of our revenue is recognized when the product is shipped to the customer. This revenue recognition policy applies to prospect lists, mailing labels, published directories, other sales lead products and DVD and CD information products. These product sales are typically evidenced by a written purchase order or by credit card authorization. Sales of DVD and CD information products occur with rights of return. Therefore, we also estimate and record an allowance for product returns and reduce the amount of recognized revenue by anticipated product returns. The estimate of the product returns is made by giving consideration to the historical trends in sales and product returns, estimates of product inventory currently in the channel of distribution, and the timing and release of new product versions.

Revenues derived from data processing services represent approximately 27% of our revenues. Data processing revenues are billed on a time and materials basis, with the recognition of revenue occurring as the services are rendered to the customer.

Revenue from the licensing of our data to third parties represents approximately 20% of our revenue. Licenses are typically evidenced by written contracts. When we commit to provide the customer either continuous data access (i.e., "24/7" access via the Internet) or updates of data files over a period of time, we recognize revenue from the licensing arrangement on a straight-line basis over the life of the agreement. We adopted this policy in 2000 because we believe this method better reflects the service commitment inherent in the licensing agreements in light of a growing proportion of such long-term and continuous access agreements. We also license data to customers with no such commitments. In those cases, we recognize revenue when the data is shipped to the customer and collectibility of the revenue is reasonably assured.

We assess collectibility of revenues and our allowance for doubtful accounts based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. An allowance for doubtful accounts is established to record our trade accounts receivable at estimated net realizable value. If we determine that collection of revenues are not reasonably assured at or prior to the delivery of our products, we recognize revenue upon the receipt of cash. Cash-basis revenue recognition periodically occurs in those cases where we sell or license our information products to a poorly capitalized company, such as an Internet startup company. However, sales recognized on this basis are not a significant portion of our total revenues.

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Database Costs. The Company's database and production costs are generally charged to expense as incurred and relate principally to maintaining, verifying and updating its databases, fulfilling customer orders and the production of DVD/CD titles. Costs to develop new databases are capitalized by the Company and amortized upon the successful completion of the databases, over a period ranging from one to five years. Our cost of maintaining the Company's consumer and business databases does not necessarily vary directly with revenues since a significant portion of the cost is the maintenance and verification of our existing data. Consequently, operating income may vary significantly with changes in revenue from period-to-period, as our ability to adjust certain elements of our cost structure is limited in the short-run.

At December 31, 2001, capitalized database costs (net of accumulated amortization) were $10 thousand, or less than one percent of total assets.

Because we expense the costs of maintaining and verifying the Company's existing database, our balance sheet does not include an asset for the value of our database. We believe that our databases of consumer and business information are valuable intellectual property assets. Our success in marketing our products and services depends, in large part, on our ability to maintain an accurate and reliable database of business and consumer information.

Related party transactions. As discussed in Note 12 to the audited Consolidated Financial Statements included elsewhere in this Form 10-K, the Company paid $2.1 million to Annapurna Corporation, which is 100% owned by Mr. Gupta, who is Chairman and Chief Executive Officer of the Company, for employee travel expenses. The expenses are authorized by the Company's management and board of directors to support Mr. Gupta's responsibilities related to business development, new acquisitions and other strategic initiatives. Arrangements between the Company and Annapurna Corporation are subject to periodic review by the Company's management and board of directors.

Valuation of long-lived and intangible assets and goodwill. We assess the impairment of identifiable intangibles, long-lived assets and related goodwill and enterprise level goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results,
- Significant changes in the manner or use of the acquired assets or the strategy for our overall business,
- Significant negative industry or economic trends,
- Significant decline in our stock price, and
- Our market capitalization relative to net book value.

When we determine that the carrying value of intangibles, long-lived assets and related goodwill and enterprise level goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure impairment based on estimated fair value of the assets. Net intangible assets, long-lived assets, and goodwill amounted to $284.7 million as of December 31, 2001.

In 2002, Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" became effective and as a result, we will cease to amortize approximately $16.5 million of goodwill. We had recorded approximately $16.5 million of amortization on these amounts during 2001 and would have recorded approximately $31.5 million of amortization during 2002. In lieu of amortization, we are required to perform an initial impairment review of our goodwill in 2002 and an annual impairment review thereafter. We expect to complete our initial review during the first six months of 2002.

While we do currently do not expect to record an impairment charge upon completion of the initial impairment review, there can be no assurance that at the time the review is completed, or after the annual review thereafter, a material impairment charge will not be recorded.

The Company has supplemented its internal growth through strategic acquisitions. The Company has completed fourteen acquisitions since mid-1996. Through these acquisitions, the Company has increased its presence in the consumer marketing information industry, greatly 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 broadened its offerings of business and consumer marketing information. The following table summarizes these acquisitions:

ACQUIRED COMPANY	KEY ASSET	PRINCIPAL BUSINESS SEGMENT	TYPE OF ACQUISITION
Digital Directory Assistance	Consumer CD-Rom Products	Small business	Asset purchase
County Data Corporation	New Businesses Database	Small business	Pooling-of-interes
Marketing Data Systems	Data Processing Services	Large business	Asset purchase
BJ Hunter	Canadian Business Database	Small business	Stock purchase
Database America Companies	Consumer Database and Data Processing Services	Large business	Stock purchase
Pro CD	Consumer CD-Rom Products	Small business	Asset purchase
Walter Karl	Data Processing and List Management Services	Large business	Stock purchase
JAMI Marketing	List Management Services	Large business	Asset purchase
Contacts Target Marketing	Canadian Business Database	Small business	Asset purchase
Donnelley Marketing ..	Consumer Database and Data Processing Services	Large business	Stock purchase
American Church Lists	Religious Institution Database	Small Business	Stock purchase
IdEXEC	Executives Database	Large Business	Asset purchase
Getko Direct Response	Canadian Consumer Database and Data Processing Services	Small Business	Asset Purchase
infoUSA.com minority interest	Internet license and products	Small Business	Asset Purchase
Polk City Directories	Business Directories Products	Directories	Asset purchase

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(1) Transaction value includes total consideration paid including cash paid, debt and stock issued plus long-term debt repaid or assumed at the date of acquisition plus, in the case of DBA, a subsequent purchase price adjustment in October 1997.

As part of these strategic acquisitions, the Company has incurred various acquisition-related charges to integrate operations, consisting of: 1) $0.5 million in 2001, in connection with the acquisition of Polk City Directories, 2) $2.3 million in 2000, for the attempted acquisition of the consumer database division of R.L. Polk and the acquisitions of idEXEC, American Church Lists and Getko Direct Response, 3) $9.8 million in 1999 in connection with the acquisition of Donnelley Marketing, 4) $10.1 million in 1998 in connection with the acquisitions of Walter Karl and JAMI Marketing and for certain internal restructuring charges, 5) $56.1 million in 1997 in connection with the acquisitions of DBA and Pro CD. In addition, the Company has amortized goodwill and other intangibles over periods of up to 20 years in connection with acquisitions completed since mid-1996. However, effective January 1, 2002, the Company will no longer amortize all goodwill and certain other intangible assets due to new accounting rules, described in the "Accounting Standards" section that follows. The Company's results for 1999 do not include the operations of American Church Lists, idEXEC and Getko Response, and the results for 2000 and 1999 do not include the minority interests of infoUSA.com and Polk City Directories. While there are currently no binding commitments with respect to any particular future acquisitions, the Company frequently evaluates the strategic opportunities available and intends to pursue strategic acquisitions of complementary products, technologies or businesses that it believes fit its business strategy. In connection with future acquisitions, the Company expects that it will be required to incur additional acquisition-related charges to operations.

Associated with the acquisitions previously described, the Company has recorded amortization expense on goodwill and other purchased intangibles as summarized in the following table (amounts in thousands):

FISCAL YEAR	AMOUNT
1997....................	$ 27,661
1998....................	18,147
1999....................	22,061
2000....................	32,190
2001....................	30,254

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, certain items from the Company's statement of operations data expressed as a percentage of net sales. The amounts and related percentages may not be fully comparable due to the acquisition of Donnelley Marketing in July 1999, American Church Lists in March 2000 and idEXEC and Getko Direct Response in May 2000, the minority interest in infoUSA.com in August 2001 and Polk City Directories in October 2001:

	YEAR ENDED DE	
	2001	2000
CONSOLIDATED STATEMENT OF OPERATIONS DATA:		
Net sales	100%	10
Costs and expenses:		
Database and production costs	28	3
Selling, general and administrative	39	4
Depreciation and amortization	17	1
Impairment of assets	--	
Acquisition costs	--	
Non-cash stock compensation	--	
Restructuring charges	2	
Provision for litigation settlement	--	-
Total costs and expenses	86	10
Operating income (loss)	14	(
Other income, net	(8)	(
Income (loss) before income taxes from continuing operations	6	(
Income tax expense	4	-

Income (loss) from continuing operations	2	(
Discontinued operations, net of tax	--	(
Income (loss) before cumulative effect of a change in accounting principle	2	(
Cumulative effect of a change in accounting principle, net of tax	--	(
Net income (loss)	2%	(1
EBITDA, as adjusted(1)	31%	1
OTHER DATA:		
SALES BY SEGMENT:		
Small business	$133.7	$140.
Large business	155.0	165.
Total	$288.7	$305.
SALES BY SEGMENT AS A PERCENTAGE OF NET SALES:		
Small business	46%	4
Large business	54	5
Total	100%	10

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(1) "EBITDA, as adjusted," is defined as operating income (loss) adjusted to exclude depreciation and amortization, impairment of assets, non-cash stock compensation expense and in-process research and development charges. EBITDA, as adjusted, 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.

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2001 COMPARED TO 2000

Net sales

Net sales for 2001 were $288.7 million, a decrease of 6% from $305.7 million in 2000. The decrease 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 2001 were $133.7 million, a 5% decrease from $140.2 million in 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 tragic events of September 11. $9.0 million of the decrease specifically related to the sale of content to list brokers and resellers, who are more adversely affected by the economic downturn. The net sales amounts are not fully comparable due to the acquisition of Polk City Directories in October 2001. The Company immediately integrated the operations of Polk City Directories into existing operations and cannot report the results of operations of Polk City Directories 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. 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.

Net sales of the large business segment for 2001 were $155.0 million, a 6% decline from $165.5 million in 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 the continued decline by its Internet license customers. License revenues were $46.5 million in 2001, a decline of $5.1 million from $51.6 million for 2000, primarily due to a decreased number of Internet license customers directly related to the down turn experienced by many Internet companies since early 2000.

Database and production costs

Database and production costs for 2001 were $80.9 million, or 28% of net sales, compared to $101.8 million, or 33% of net sales for 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 22% of net sales for 2001, a decrease of $8.5 million, compared to the rate of 26% of net sales for 2000. Database and production costs for corporate activities for 2001 decreased $3.9 million compared to 2000, due to decreased data compilation and data acquisition costs. Database and production costs for the Internet businesses decreased $4.9 million to $0.7 million for 2001, compared to $5.6 million for 2000.

Selling, general and administrative expenses

Selling, general and administrative expenses for 2001 were $112.4 million, or 39% of net sales, compared to $149.7 million, or 49% 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 2001 were $12.2 million, or 4% of net sales, compared to $31.8 million, or 10% of net sales for 2000. Marketing and advertising expenses related to the various Internet divisions were $0.3 million for 2001, reflecting a decrease of $13.8 million, or 5% of net sales, compared to $14.1 million for 2000. Marketing and advertising expenses related to the core businesses were $11.9 million for 2001, or $5.7 million lower compared to 2000. Salaries and wages for marketing and general administration for 2001 were $63.3 million, or 22% of net sales, a reduction of $15.9 million compared to $79.2 million, or 26% of net sales for 2000.

Depreciation and amortization expenses

Depreciation and amortization expenses for 2001 were $48.1 million (comprised of $30.2 million for amortization of goodwill and other intangible assets and $17.9 million for depreciation of operating assets), or 17% of net sales, compared to $52.2 million (comprised of $32.2 million for amortization of goodwill and other intangible assets and $20.0 million for depreciation of operating assets), or 17% of net sales for 2000. The decrease in depreciation and amortization expenses is principally due to certain intangible assets and software development costs becoming fully amortized.

Non-cash stock compensation expense

Non-cash stock compensation expenses were $0.4 million, or less than 1% of net sales, compared to $3.1 million, or 1% of net sales for 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 purchase of assets, it did not and will not incur non-cash stock compensation expense related to the infoUSA.com subsidiary options during the fourth quarter of 2001 and subsequent periods.

Restructuring costs

During 2001, the Company recorded restructuring charges of $4.9 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 its Foster City, California facility. The Company 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 $2.1 million for workforce reduction charges that included involuntary employee separation costs for approximately 265 employees discharged during 2001, in administration, sales support and marketing functions.

During 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 former Foster City, California facility and an accrual of $2.1 million for workforce reductions of approximately 350 employees. Employees discharged during 2000 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.

Litigation settlement charge

The Company is involved in various legal proceedings, including product liability and other matters of a nature considered normal to its business. During 2001, the Company settled two legal matters totaling $1.1 million.

Acquisition costs

During 2001, the Company recorded charges of $0.5 million related to the Company's acquisition of Polk City Directories, representing costs to integrate these operations into the Company's existing operations. These costs were not directly related to the acquisition of Polk City Directories, and therefore could not be capitalized as part of the purchase price.

During 2000, the Company recorded acquisition costs of $2.3 million, including $0.5 million 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. The Company also recorded $1.8 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 $40.4 million, or 14% of net sales for 2001, compared to an operating loss of $11.4 million, or 4% of net sales for 2000.

Operating income for the small business segment for 2001 was $60.4 million, or 45% of net sales, as compared to $32.4 million, or 23% of net sales for 2000. The increase in operating income as a percentage of net sales is principally due to staffing reductions previously 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 2001 was $81.1 million, or 52% of net sales, as compared to $75.5 million, or 46% of net sales for 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 expense, net

Other expense net, was $24.1 million, or 8% of net sales, and $4.5 million, or 1% of net sales, for 2001 and 2000, respectively. Other 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 or expense of the Company.

Interest expense was $25.3 million and $26.7 million for 2001 and 2000, respectively. Investment income was $1.0 million and $1.3 million, for 2001 and 2000, respectively. During the year 2000, infoUSA.com, a subsidiary of the Company, completed additional venture capital financing and 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 loss of subsidiary of $0.3 million and $6.3 million for 2001 and 2000, respectively, represents the minority investors' share of infoUSA.com's net loss for the periods then ended. Effective August 30, 2001, the Company eliminated the minority interest of its subsidiary, infoUSA.com, through the acquisition of the subsidiary's operating assets.

Income taxes

A provision for income taxes of $11.4 million and $1.3 million was recorded for 2001 and 2000, respectively. The gain the Company recorded on the issuance of subsidiary stock during 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 $0.2 million and operating expenses of $6.9 million, for a pre-tax operating loss of $6.7 million and an after-tax loss of $4.2 million during 2000. Included in the operating expenses of $6.9 million for 2000, the Company recorded asset impairment charges of $1.2 million and restructuring charges of $0.1 million related to discontinuing the operations of VideoYellowPages.com.

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 $89.0 million, or 31% of net sales for 2001, compared to $46.0 million, or 15% of net sales for 2000.

2000 COMPARED TO 1999

Net sales

Net sales for 2000 were $305.7 million, a 15% increase from $265.9 million in 1999. Net sales of the small business segment were $140.2 million, an 8% increase from $129.9 million in 1999. The small business segment principally engages in the selling of sales lead generation and consumer CD-Rom and 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 acquisitions of American Church Lists in March 2000, idEXEC and Getko in May 2000 contributed to the increase, although the sales associated with these acquired entities were not significant. The overall increase in the net sales of the small business segment is principally due to the acquisition of Donnelley in July 1999 and the related sale of Donnelley's consumer data by this segment although the amount can not be accurately quantified.

Generally, upon integration of an acquired business, 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 of existing products by acquired business units. Additionally, effective January 1, 2000, the operations related to Donnelley were reorganized and certain operations that were previously included in the large business segment have been included in the small business segment from January 1, 2000 forward. The small business segment has experienced growth in its vertical market groups including the middle markets, government, library, medical and field sales offices groups. Additionally, the Company recorded Internet content sales of $3.9 million in 2000, an 18% increase from $3.3 million in 1999. The increase in net sales by the small business segment described above was partially offset by a decrease in the net sales of consumer CD-Rom products. The Company recorded net sales of $10.8 million of consumer CD-Rom products during 2000, compared to $19.0 million in 1999. The decline in net sales of consumer CD-Rom products is the result of general market conditions and the Company's unsatisfactory execution of merchandising programs with retailers and a change in the timing of new product releases.

Net sales of the large business segment were $165.5 million, a 22% increase from $136.0 million in 1999. Included in the large business segment are sales of data processing services and Internet-based database licenses. The increase in net sales for the large business segment is due to the following: 1) acquisition of Donnelley in July 1999 and idEXEC in May 2000, 2) increased sales of Internet-based database licenses, and 3) increased sales of marketing database licenses due to the addition of certain significant license arrangements. Additionally, the amounts are not fully comparable as effective January 1, 2000, the operations related to Donnelley were reorganized and certain operations that were previously included in the large business segment have been included in the small business segment from January 1, 2000 forward. The amount of sales transferred to the small business segment due to the reorganization can not be accurately quantified for reasons previously described.

Certain comparative information related to the large business segment includes: 1) net sales of Internet-based database licenses for 2000 were $20.2 million, a 62% increase from $12.5 million in 1999, and 2) net sales of data processing services were $77.1 million, a 3% increase from $74.8 million in 1999.

Database and production costs

Database and production costs for 2000 were $101.8 million, or 33% of net sales, an increase of 3% of net sales compared to $78.6 million, or 30% of net sales for 1999. The increase in database and production costs as a percentage of net sales is partially due to the acquisition of Donnelley in July 1999. Sales associated with the Donnelley operations have a larger composition of data processing and client services than the sales associated with the remainder of the Company's operations.

The increase in database and production costs as a percentage of net sales is principally due to the execution of the Company's planned expansion related to various Internet initiatives. Database and production costs related to the various Internet divisions increased $4.6 million to $5.6 million, or 2% of net sales for 2000, compared to $1.0 million, or less than 1% of net sales for 1999. The increase for the Internet divisions is due to additional information technology and data content costs.

Selling, general and administrative expenses

Selling, general and administrative expenses for 2000 were $149.7 million, or 49% of net sales, an increase of 8% of net sales compared to $108.4 million, or 41% of net sales for 1999. The increase in selling, general and administrative expenses as a percentage of net sales is principally due to the execution of the Company's planned expansion related to various Internet initiatives. Selling, general and administrative costs related to the various Internet divisions increased $19.1 million, to $25.5 million, or 8% of net sales for 2000, compared to $6.4 million, or 2% of net sales for 1999. The increase in selling, general and administrative expenses related to the Internet divisions included the following items: 1) increase in advertising costs of $8.6 million for a total of $11.9 million for 2000, 2) increase in salaries and wages of $6.7 million for a total of $8.8 million for 2000, 3) increase in bad debt of $1.1 million for a total of $1.3 million for 2000, 4) increase in building lease, taxes and maintenance expenses of $1.2 million for a total of $1.4 million for 2000 and, 5) increase of travel and entertainment costs of $0.8 million for a total of $1.0 million for 2000.

Depreciation and amortization expenses

Depreciation and amortization expenses for 2000 were $52.2 million, or 17% of net sales, compared to $34.9 million, or 13% of net sales for 1999. The increase in depreciation and amortization expenses is primarily due to the acquisition of Donnelley in July 1999.

Impairment of assets

During 2000, the Company recorded asset impairment charges totaling $2.1 million, or 1% of net sales. The impairment charges included: 1) $1.0 million for the infoPix business photograph database and related equipment, 2) $0.9 million for infoUSA.com public offering costs and certain leasehold improvements for the Foster City, CA facility, and 3) $0.2 million for capitalized software costs related to the Company's data warehousing project which was discontinued due to the Company's cost containment plans previously described.

During 1999, the Company recorded asset impairment charges totaling $5.6 million, or 2% of net sales. The impairment charges included: 1) a write-down of $3.9 million on the Company's existing consumer database white pages file which was impaired due to the addition of the more complete Donnelley consumer file with the acquisition of Donnelley in July 1999, and 2) a write-down of $1.7 million on certain leasehold improvements and in-process construction projects which were abandoned due to the move of data processing services operations from Montvale, NJ to Greenwich, CT.

Acquisition costs

During 2000, the Company recorded various integration-related charges of $2.3 million, or 1% of net sales. These costs included $0.5 million related to the integration of American Church Lists, idEXEC and Getko into the Company's existing operations and $1.8 million associated with the Company's unsuccessful bid to acquire the consumer database division of R.L. Polk.

During 1999, the Company recorded various integration-related charges of $4.2 million, or 2% of net sales. The integration-related charges included consulting costs, management bonuses, direct travel and entertainment costs and other direct integration-related charges. These costs were not directly related to the acquisition of Donnelley, and therefore could not be capitalized, but were costs associated with the integration of Donnelley operations into the Company's existing operations.

Non-cash stock compensation expense

During 2000, the Company recorded a non-cash charge of $3.1 million, or 1% of net sales, related to the issuance of stock options for infoUSA.com, a subsidiary of the Company. The non-cash charges represent compensation in the form of stock option and warrant grants by the subsidiary to non-employees and vendors.

Restructuring charges

During 2000, the Company recorded restructuring charges of $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 from 2,200 to 1,841. The Company recorded a $3.7 million accrual for the lease buyout of the Foster City, California facility and $2.1 million for workforce reduction charges. The workforce reduction charges included involuntary employee

separation costs for approximately 350 employees that included charges of $0.8 million for employees in the Company's Internet businesses, $0.7 million for employees of the large business segment, $0.4 million for employees of the small business segment and $0.2 for administrative employees. As of December 31, 2000, employees received cash severance payments totaling $0.3 million during 2000 with $1.8 million paid during 2001. At December 31, 2000, these deferred payments were classified in the Statement of Consolidated Financial Position as other liabilities.

Operating income

Including the factors previously described, the Company had an operating loss of $11.4 million, or 4% of net sales for 2000, compared to operating income of $34.1 million, or 12% of net sales for 1999. Excluding acquisition-related, integration, restructuring and asset impairment charges previously described, the Company would have had an operating loss of $1.2 million, or less than 1% of net sales for 2000, compared to $43.8 million, or 16% of net sales for 1999.

Operating income for the small business segment for 2000 was $32.4 million, or 23% of net sales, as compared to $61.7 million, or 48% of net sales for 1999. The decrease in operating income as a percentage of net sales is principally due to the Company's execution of the planned expansion related to various Internet initiatives. Substantially all costs related to the Internet divisions are included in the small business segment. See the sections "Selling, general and administrative expenses" and "database and production costs" previously described, for additional information describing the Internet divisions, the effects on the results of operations and expected trend for 2001.

Operating income for the large business segment for 2000 was $75.5 million, or 46% of net sales, as compared to $55.9 million, or 41% of net sales for 1999. The increase in operating income as a percentage of net sales is partially due to the overall increase in sales of marketing database licenses and Internet-based database licenses, as the cost margins associated with these products are lower than the cost margins associated with the remainder of the large business segment's products. Additionally, the Company implemented a cost reduction program as part of the acquisition of Donnelley in July 1999. Subsequent to the acquisition of Donnelley, the Company was successful in reducing operating costs related to the acquired operations and achieved its desired cost reduction levels by the end of 1999.

Other income (expense), net

Other income (expense), net was $(4.5) million, or (1)% of net sales, and $4.5 million, or 2% of net sales, 2000 and 1999, respectively. 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.

Investment income was $1.3 million and $14.2 million for 2000 and 1999, respectively. During 1999, the Company realized a gain of $10.3 million on the disposition of its holdings in InfoSpace.com common stock, the proceeds of which were used to reduce the debt outstanding incurred as part of the acquisition of Donnelley.

Interest expense was $26.7 million and $18.6 million for 2000 and 1999, respectively. The increase in interest expense is primarily the result of the addition of the Deutsche Bank Credit Facilities used to finance the acquisition of Donnelley in July 1999.

Minority interest in subsidiary of $6.3 million for 2000, represents the unaffiliated investors' share of infoUSA.com's net loss for the period then ended.

During 2000, infoUSA.com, a subsidiary of the Company, completed additional private equity financing. As a result of the issuance of stock of this subsidiary, the Company recorded a gain of $14.6 million. 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 affecting working capital of existing operations. The dramatic changes in the Internet market during the fourth quarter 2000 and the first quarter of 2001 has required the Company to focus on preserving the remaining investment and revise its strategy for turning infoUSA.com into a profitable subsidiary. The Company has initiated cost reduction plans, as described above, for infoUSA.com and the other Internet businesses to achieve profitable operations during fiscal year 2001.

Income taxes

A provision for income taxes of $1.3 million and $14.0 million was recorded for 2000 and 1999, respectively. The gain the Company recorded on the issuance of subsidiary stock is not subject to income tax expense. The provisions for these periods also reflect the inclusion of amortization of certain intangibles in taxable income not deductible for tax purposes. The provisions for the periods beginning January 1, 2000 do not include the net losses associated with infoUSA.com, as this entity is not included in the Company's consolidated federal income tax return from this date forward.

The income tax expense is higher (or benefit is lower) than expected principally due to significant nondeductible expenses related to the amortization of intangible assets arising from acquisitions and valuation reserves recognized for deferred tax assets related to net operating losses generated by the Company's subsidiary infoUSA.com. These items are offset in part by the gains on issuance of subsidiary stock by infoUSA.com, which is not subject to income tax expense.

Loss from discontinued operations, net of tax

During December 2000, the Company closed the operations of its VideoYellowPages.com Internet unit and recorded a loss from discontinued operations of $4.2 million, net of income tax benefit. The loss is comprised of two components: 1) the loss of $3.4 million, net of tax, for the full fiscal year, and 2) charges totaling $0.8 million, net of tax, for assets to be disposed of or abandoned by the Company related to the discontinued operations.

Extraordinary item, net of tax

During the first quarter of 1999, the Company repurchased $9.0 million of its 9 1/2% Senior Subordinated Notes (the "Notes"). In connection with the repurchase of the Notes, the Company recorded a gain of $0.1 million, net of deferred financing costs of $0.4 million written-off in proportion to the face amount of Notes purchased and retired.

Cumulative effect of accounting changes, net of tax

During 2000, the Company changed its method of accounting for data licensing arrangements sold with updates to record revenue on a straight-line basis over the license term. This new adopted method of accounting was made because it better reflects the service commitment inherent in the Company's licensing agreements in light of the growing proportion of such license revenue resulting from long-term and continuous access agreements. The Company believes the new 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

Excluding the non-cash stock compensation expense and non-cash portion of the acquisition costs and restructuring charges, the Company's EBITDA, as adjusted, was $46.0 million, or 15% of net sales for 2000, and $74.6 million, or 28% of net sales for 1999.

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 Senior Debt Credit facility to permit continued availability of borrowing under such credit facility. As of December 31, 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.

During the first quarter of 2002, the Company continued to make voluntary payments on its Senior Debt Credit facility, with voluntary payments totaling $4.1 million.

On March 6, 2002, the Company refinanced the Senior Debt Credit facility administered by Deutsche Bank with Banc of America Securities, LLC. Available borrowings under the new Senior Debt Credit facility are $47.0 million for Term A, $45.0 million for Term B and $18.0 million under a revolving credit facility. The Company is subject to certain financial covenants in the Senior Debt Credit facility, including funded debt leverage ratio, senior debt

leverage ratio, fixed charge coverage ratio and minimum consolidated EBITDA. Management believes the Company has been in compliance with all restrictive covenants of the Company's current and new Senior Debt Credit facility described above. Refer to Note 8 to the Company's audited Consolidated Financial Statements "Financing Arrangements," included elsewhere in this Form 10-K, for additional information regarding the Company's long-term debt.

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 seek additional equity or debt financing, which may not be available or m