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Date: 2/8/2005 2:28 PM
Subject: RE: Related party report

I have investigated in-depth the area of related party transactions. In the process, I have acquired additional information and documents from InfoUSA, and met with Vin twice. Separately, I have sought information and guidance from Alexi Wellman of KPMG and Reed Sampson of Lutz & Co. The report is attached for your information. I understand our meeting is scheduled for tomorrow. If you have any questions or need additional information, please call (402-280-5518) or send an email.

Thank you.

Vasant

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**RELATED PARTY TRANSACTIONS
ANALYSES AND RECOMMENDATIONS**

CLASSES OF TRANSACTIONS

At InfoUSA, past transactions can be classified into the following classes:

- Annapurna
 1. NetJet
- Use of personal properties
 1. Hillsborough estate
 2. Maui condo
 3. Cars – Leasing
 4. Boat
- Employees as contractors or consultants
- Directors' related party transactions
- Other

Each class is discussed in the following paragraphs and recommendations follow the analysis.

ANNAPURNA

The firm, Annapurna, is wholly owned by the CEO and any transactions between Annapurna and InfoUSA are therefore related party transactions. These transactions may be essential for the business of InfoUSA. However, they may be subject to the following test:

1. Is there a record of transaction authorization? Do we maintain documents on both sides to show the nature of services, who authorized, when delivered, and how paid?
2. Could these services be procured from other sources? If so, what would be the price?

RECOMMENDATION/DECISION:

A large majority of these payments is comprised of the use of the NetJet. The jets are now owned by InfoUSA, so the question of related party payment to Annapurna for the use of such jets does not arise. In 2004, these payments amounted to \$928,990.

This approach has created the need for InfoUSA employees (especially key officers) to report personal use, if any, of these jets. This needs to be documented and the value received should be paid by the employee to InfoUSA.

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Entity	Class of transactions		2004 Amount	Comment
Annapurna	NetJet		\$928,990	InfoUSA now owns a share of NetJet. Personal use, if any, will have to be reported.
Annapurna	Use of personal properties (residences)	Fixed monthly charge	120,000	No charges beginning 2005.
Annapurna	Use of personal properties (boat)	Employment Use of boat	123,899 154,000	InfoUSA will lease from an external party, not Annapurna, as and when needed.
Annapurna	Travel services	Service charges	195,000	Travel services will not be offered by Annapurna in 2005. These charges will not exist.
Annapurna	Contractor services		2,800	
		TOTAL	\$1,524,689	

USE OF PERSONAL PROPERTIES

The use of personal property for business purposes can be expected. However, complications arise in the reimbursement of the related party. Here is an illustrative list of issues:

1. Did InfoUSA truly benefit from the use? Some results may surface quickly, others may take a long time. Some benefits may be strictly indirect, others may be clearly direct.
2. Could these services be procured from other sources? A hotel suite in place of the residence, or a boat rental from a third party. If equivalent services are procured from outside, what would be the cost? The market determines the value received by InfoUSA.
3. Does the property manager keep a detailed audit trail similar to what third parties would maintain? In addition, information such as purpose of visit, etc. will also be necessary to prove the business use of personal properties.

Clearly, a fixed monthly payment in anticipation of use of a property cannot be easily supported as value received by InfoUSA.

RECOMMENDATIONS:

1. Adopt a company policy that no such reimbursement shall be allowed. Employees affected should consider reporting unreimbursed employee expenses on their individual tax return to the IRS.

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2. A somewhat less satisfactory option is to have the owner document actual business use of each personal property. A fair value of equivalent services can be computed and the owner employee could be reimbursed accordingly. This option will require that proper records are maintained by the owner employee and periodically audited by InfoUSA.
3. A third option is the current practice of a fixed monthly reimbursement. This is difficult to support under any circumstances.

Entity	Class of transactions		2004 Amount	Comment
Related party of CEO	Use of personal property	Monthly charges – Maui condo	\$48,000	This property is currently in heavy use by customers and employees. Consequently, the transfer of funds will continue in 2005.
	Aspen Leasing	Fees for leasing	57,543	Lease/ownership of cars will be transferred over to InfoUSA.

EMPLOYEES AS CONTRACTORS

The Internal Revenue Services maintains a strictly monitored check list of conditions an employee must meet to be paid outside of the payroll for additional services or contracts. This means that any payment to employee, other than reimbursement of expenses incurred and paid by the employee, must flow through the payroll, which is subject to withholdings at the time of payment.

If a particular arrangement with an employee is in substance a contractual agreement beyond normal duties of the employee, it should be supported by the following tests:

1. Does a consulting agreement exist?
2. Is the nature of work substantive and beyond the scope of the employee's normal duties?
3. Are the duties/tasks definitive? Verifiable? Are the deliverables specified in the contract?
4. Is there a proof of time spent on the contract outside of employment hours?
5. Are the duties under the contract dissimilar from the nature of duties on the employment? Are these ongoing or one-time duties?
6. Does the employee-contractor have any other employees? If so, are any other personnel of the contractor involved in contract fulfillment?

RECOMMENDATIONS:

1. Unless there is evidence that the transaction is truly a contractual arrangement, pay the employees through payroll. All such payments should be subject to normal tax withholdings.
 - All contracts should be subject to sign offs by designated functions and the end-user beneficiary function in the company.
2. If the person involved is a key officer of the company, any such compensation may need to be approved/reviewed by the compensation committee of the Board.

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In the final analysis, the management favors carving out appropriate contracts with individual employees to ensure that transactions are legally compliant. For external reporting purposes, additional compensation to officers is included in the amounts reported on Form 10-K.

Entity	Employee	Officer?		2004 Amount	Comment
White Oak Consulting	Ray Butkus	Yes	Monthly Triflex OneSource	\$176,775 25,000 122,667	
	Ed Mallin	Yes	Monthly Edith Roman	104,000 175,000	
Albortz Corp.	Fred Vakili	Yes	Triflex OneSource/Edith Roman Trade Shows	50,000 50,000 8,040	
LMDT	DJ Thayer	Yes	Rent Consulting	24,000 75,000	
JT Marketing	Janet Thayer	Not an employee	Contractor fees (variable monthly)	79,139	Meets the definition of contractor.
Growth Quest	Monica Messer	Yes	OneSource/Edith Roman	50,000	
	Rakesh Gupta	Yes	OneSource	40,000	
	Raj Das	Yes	OneSource	25,000	
Financial Communications	L. Gupta	No	Expense reimbursement – fixed monthly	31,200	

Use of InfoUSA Properties by Third Parties

Where key management, directors, CEO, or Board Members use InfoUSA resources (including properties), the company should be compensated for such use. An example in point is the Everest Building (discussed below).

Everest Building: The extension on the south side of the main Ralston building is occupied by several entities other than InfoUSA.

RECOMMENDATION:

1. Related parties should pay InfoUSA for value received. This should be under a formal contract, such as rental agreement.
2. Any other related party tenants of other properties of InfoUSA should be identified. Such entities should enter into similar agreements with InfoUSA.

The Everest Building has several occupants, including InfoUSA, Herald (Andy) Andersen, PKWARE, Everest, Danny Walker, and Annapurna. The question of independence of a director

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may surface if the director or his organization is an occupant of InfoUSA premises and particularly, if no rental/lease agreement exists between InfoUSA, and the director or his organization. To avoid ambiguity on these grounds, it would help to have this question fully addressed by each director-occupant with InfoUSA.

DIRECTORS' BENEFITS AND COMPENSATION

Entity	Class of transactions	2004 Amount of compensation	2004 Amount of expenses reimbursed	Comment
Dennis Walker	Board member	\$60,000		
Vasant Raval	Board member	96,000		
Elliot Kaplan	Board member	60,000	Included in Robins, Kaplan, Miller & Ciresi invoices	
George Haddix	Board member	84,000		
H. Andersen	Board member	84,000	\$3,091	
Richard Borda	Board member	84,000	3,003	
	TOTAL	468,000	6,094	

Directors' compensation is approved appropriately, and full disclosure of such compensation is made in Form 10-K.

Directors' Related Party Transactions

Entity	Class of transactions	Related party	2004 Amount	Comment
Robins, Kaplan, Miller & Ciresi	Legal services	Elliot Kaplan (Director)	\$575,876	The use of legal services from the firm is likely on an ongoing basis, and is properly disclosed in the past.

OTHER

Entity	Employee	Class of transactions	2004 Amount	Comment
Gupta Family irrevocable trust	Vin Gupta	Term Life Ins. Policy premium	\$39,000	Not a key-man policy. Payment should be made directly by Vin. Reimbursement may be grossed up, if the Board wishes, to compensate Vin for tax consequences.

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CONCLUDING REMARKS

Based on the above decisions, the following charges will be borne by the CEO:

Item	Amount
Annapurna – Use of personal properties (residences)	\$120,000
Annapurna – Use of personal property (boat)	277,899
Annapurna – Service charges for travel services	195,000
Term life policy insurance premium to Gupta Family Irrevocable Trust	39,000
TOTAL	\$631,899

It is important to note that this figure, \$631,899, does not represent total savings for InfoUSA, for comparable services, as and when needed, will be procured from external sources. No attempt has been made to estimate the future volume of services and their estimated cost.

Respectfully submitted to the Board of InfoUSA by

Vasant Raval, Chair
Audit Committee

Feb. 8, 2005

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