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INFORTE CORP  
Form 10-Q  
May 15, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2003

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-29239

INFORTE CORP.

(Exact name of registrant as specified in its charter)

Delaware 36-3909334  
(State of incorporation) (IRS Employer Identification No.)

150 North Michigan Avenue, Suite 3400, Chicago, Illinois 60601  
(Address of principal executive offices, including ZIP code)

(312) 540-0900 (Registrant's telephone number,  
including area code)

None

(Former name, former address and former fiscal year, if changed since last  
report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the Registrant's Common Stock as of March 31, 2003 was 10,864,925.

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INFORTE CORP.

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### PART I. FINANCIAL INFORMATION

#### Item 1. Financial Statements

INFORTE CORP.  
CONSOLIDATED BALANCE SHEETS  
(000's)

	MAR 31, 2002	JUN 30, 2002	SEPT 30, 2002	DEC 200
	-----	-----	-----	-----
	(Unaudited)	(Unaudited)	(Unaudited)	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$26,404	\$15,295	\$14,992	\$19,
Short-term marketable securities	27,195	37,311	32,044	31,
Accounts receivable	7,251	5,576	5,388	5,
Allowance for doubtful accounts	(1,000)	(850)	(700)	(
	-----	-----	-----	-----
Accounts receivable, net	6,251	4,726	4,688	4,
Prepaid expenses and other current assets	1,434	1,454	1,435	1,
Interest receivable on investment securities	515	591	488	
Deferred income taxes	1,550	1,493	1,435	1,
	-----	-----	-----	-----
Total current assets	63,349	60,870	55,082	57,
Computers, purchased software and property	3,662	3,232	3,074	2,
Less accumulated depreciation and amortization	2,040	1,798	1,853	1,
	-----	-----	-----	-----
Computers, purchased software and property, net	1,622	1,434	1,221	1,
Long-term marketable securities	21,677	20,146	18,947	16,
Deferred income taxes	482	707	629	
	-----	-----	-----	-----
Total assets	\$87,130	\$83,157	\$75,879	\$76,
	=====	=====	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Current liabilities:				
Accounts payable	\$ 970	\$ 317	\$ 155	\$
Income taxes payable	179	677	800	
Accrued expenses	4,110	5,060	4,941	5,
Accrued loss on disposal of leased property	1,059	1,524	1,395	1,
Deferred revenue	8,564	5,460	5,028	4,
	-----	-----	-----	-----
Total current liabilities	14,882	13,038	12,319	11,
Stockholders' equity:				
Common stock, \$0.001 par value authorized- 50,000,000 shares; issued and outstanding (net of treasury stock)- 10,864,925 as of Mar. 31, 2003	12	12	11	
Additional paid-in capital	78,305	78,680	78,742	79,
Cost of common stock in treasury (2,720,823 shares as of Mar. 31, 2003)	(14,771)	(17,810)	(24,997)	(24,
Retained earnings	8,697	9,053	9,577	10,

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Accumulated other comprehensive income	5	184	227	
	-----	-----	-----	-----
Total stockholders' equity	72,248	70,119	63,560	64,
	-----	-----	-----	-----
Total liabilities and stockholders' equity	\$ 87,130	\$ 83,157	\$ 75,879	\$ 76,
	=====	=====	=====	=====

See notes to consolidated financial statements

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CONSOLIDATED STATEMENTS OF OPERATIONS  
(000's, except per share data)

	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	-----	-----
	(Unaudited)	(Unaudited)
Revenues:		
Revenue before reimbursements (net revenue)	\$ 9,434	\$ 8,293
Reimbursements	1,467	943
	-----	-----
Total Revenue	10,901	9,236
Operating expenses:		
Project personnel and related expenses	5,002	4,346
Reimbursed expenses	1,467	943
Sales and marketing	1,518	1,405
Recruiting, retention and training	374	142
Management and administrative	3,003	2,332
	-----	-----
Total operating expenses	11,364	9,168
Operating income (loss)	(463)	68
Interest income, net and other	564	421
	-----	-----
Income before income tax	101	489
Income tax expense (benefit)	(35)	44
	-----	-----
Net income	\$ 136	\$ 445
	=====	=====
Earnings per share:		
-Basic	\$ 0.01	\$ 0.04
-Diluted	\$ 0.01	\$ 0.04
Weighted average common shares outstanding:		
-Basic	11,655	10,846
-Diluted	12,213	10,953

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See notes to consolidated financial statements

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## INFORTE CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS (000's)

	THREE MONTHS ENDED	
	MARCH 31,	
	2002	2003
	----- (Unaudited)	----- (Unaudited)
Cash flows from operating activities		
Net income	\$ 136	\$ 445
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	396	325
Non-cash compensation	-	(75)
Deferred income taxes	51	(260)
Changes in operating assets and liabilities		
Accounts receivable	(862)	915
Prepaid expenses and other current assets	61	(132)
Accounts payable	570	1,203
Income taxes	12	657
Accrued expenses and other	(413)	(1,834)
Deferred revenue	399	(828)
Net cash provided by operating activities	----- 350	----- 416
Cash flows from investing activities		
Proceeds from marketable securities	5,736	7,047
Purchases of property and equipment	(61)	(158)
Net cash provided by investing activities	----- 5,675	----- 6,889
Cash flows from financing activities		
Proceeds from stock option and purchase plans	389	99
Purchase of treasury stock	(211)	-
Net cash provided by financing activities	----- 178	----- 99
Effect of changes in exchange rates on cash	(7)	(47)
Increase in cash and cash equivalents	----- 6,196	----- 7,357
Cash and cash equivalents, beg. of period	20,208	19,186
Cash and cash equivalents, end of period	----- \$ 26,404 =====	----- \$ 26,543 =====

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See notes to consolidated financial statements

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## Notes to consolidated financial statements (Unaudited) March 31, 2003

### (1) BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by Inforte Corp. ("Inforte") pursuant to the rules and regulations of the Securities and Exchange Commission regarding interim financial reporting. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete consolidated financial statements and should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2002 included in Inforte's annual report Form 10-K (File No. 000-29239). The balance sheet at December 31, 2002 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The accompanying consolidated financial statements reflect all adjustments (consisting solely of normal, recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of results for the interim periods presented. The results of operations for the three-month period ended March 31, 2003 are not necessarily indicative of the results to be expected for the full fiscal year. Certain previously reported amounts have been reclassified to conform with current presentation format.

### (2) NET INCOME PER COMMON SHARE

Inforte computes basic earnings per share by dividing net income by the weighted average number of common shares outstanding. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding.

	Three Months Ended March 31,	
	2002	2003
	-----	
	(unaudited)	
Basic weighted average shares	11,655,048	10,846,460
Effect of dilutive stock options	558,295	106,245
	-----	
Diluted common and common equivalent shares	12,213,343	10,952,705
	=====	

### (3) COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130), establishes standards for reporting comprehensive income. Comprehensive income includes net income as currently reported under generally accepted accounting principles, and also considers the effect of additional

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economic events that are not required to be recorded in determining net income, but rather are reported as a separate component of stockholders' equity. Inforte reports foreign currency translation gains and losses, and unrealized gains and losses on investments, as components of comprehensive income. Total comprehensive income was \$411,497 for the three months ended March 31, 2003 and total comprehensive loss was \$76,204 for the three months ended March 31, 2002.

### (4) CONTINGENCIES

Inforte Corp. and Philip S. Bligh, Stephen C.P. Mack and Nick Padgett, officers of Inforte, have been named as defendants in *Mary C. Best v. Inforte Corp.; Goldman, Sachs & Co.; Salomon Smith Barney, Inc.; Philip S. Bligh; Stephen C.P. Mack and Nick Padgett*, Case No. 01 CV 10836, filed on November 30, 2001 in Federal Court in the Southern District of New York. The case is also known as *In re Inforte Corp. Initial Public Offering Securities Litigation*. An amended class action complaint was filed on April 19, 2002. The amended complaint alleges violations of federal securities laws in connection with our initial public offering occurring in February 2000 and

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seeks certification of a class of purchasers of Inforte stock, unspecified damages, interest, attorneys' and expert witness fees and other costs. The amended complaint does not allege any claims relating to any alleged misrepresentations or omissions with respect to our business. The individual defendants (Messrs. Bligh, Mack and Padgett) have been dismissed from the case without prejudice pursuant a stipulated dismissal and a tolling agreement. We have moved to dismiss the plaintiff's case. On February 19, 2002, the Court granted this motion in part, denied it in part and ordered that discovery in the case may commence. The Court dismissed with prejudice the plaintiff's purported claim against Inforte under Section 10(b) of the Securities Exchange Act of 1934, but left in place the plaintiff's claim under Section 11 of the Securities Act of 1933.

### (5) SEGMENT REPORTING

Inforte engages in business activities in one operating segment, which provides consulting services either on a fixed-price, fixed-timeframe basis or on a time-and-materials basis. Inforte's services are delivered to clients in North America and Europe, and Inforte's long-lived assets are located in North America and Europe. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of property, plant and equipment, software, furniture and fixtures and leasehold improvements (net of accumulated depreciation). Inforte's European operations had \$2,107,509 and \$1,764,538 of revenues for the three months ending March 31, 2002 and 2003, respectively. Long-lived assets were \$18,031 and \$8,229 as of March 31, 2002 and 2003, respectively.

### (6) STOCK BASED COMPENSATION

Inforte accounts for stock-based employee compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and have adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS 123") related to options. For options issued to employees during the three months ending March 31, 2002 and 2003 no stock-based employee compensation is reflected in net income in the accompanying consolidated statements of operations, as all such options had an exercise price equal to the market value of the underlying common stock on the date of grant. Had we applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation during the three months ended March 31, 2002 and 2003, net income and net income per share would have been as follows:

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	THREE MONTHS ENDED MARCH 31,	
	2002	2003
	----- (Unaudited)	----- (Unaudited)
Net income, as reported	\$ 135,578	\$ 444,113
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(1,792,907)	(1,254,863)
Pro forma net income	\$ (1,657,330)	\$ (810,750)
Net income, per share:		
Basic-- as reported	0.01	0.04
Basic-- pro forma	(0.14)	(0.07)
Diluted-- as reported	0.01	0.04
Diluted-- pro forma	(0.14)	(0.07)

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with our consolidated financial statements, together with the notes to those statements, included elsewhere in this Form 10-Q. The following discussion contains forward-looking statements that involve risks, uncertainties, and assumptions such as statements of our plans, objectives, expectations and intentions. Our actual results may differ materially from those discussed in these forward-looking statements because of the risks and uncertainties inherent in future events that include, but are not limited to, those identified under the caption "Risk Factors" appearing in this 10-Q as well as factors discussed elsewhere in this Form 10-Q. Actual results may differ from forward-looking results for a number of reasons, including but not limited to, Inforte's ability to: (i) effectively forecast demand and profitably match resources with the demand during a period where information technology spending is depressed and when worldwide economic and geopolitical uncertainty is high; (ii) attract and retain clients and satisfy our clients' expectations; (iii) recruit and retain qualified professionals; (iv) accurately estimate the time and resources necessary for the delivery of our services; (v) build and maintain marketing relationships with leading software vendors while occasionally competing with their professional services organizations; (vi) compete with emerging alternative economic models for delivery, such as offshore development; and (vii) identify and successfully offer the solutions that clients demand, as well as other factors discussed from time to time in our other Securities and Exchange Commission filings. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. All forward-looking statements included in this document are made as of the date hereof, based on information available to



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Inforte on the date thereof, and Inforte assumes no obligation to update any forward-looking statements.

### Overview

Inforte is a customer and demand management consultancy that helps clients improve customer interactions, revenue forecasting and profitability. Inforte creates strategies and implements technology solutions that enhance visibility, optimize customer and channel profitability, and integrate demand information with supply and resource planning processes. Inforte has applied a client advocacy approach and rigorous delivery methodologies to help garner references from 100 percent of its Global 2000 client base. Founded in 1993, Inforte is headquartered in Chicago and has offices in Atlanta, Dallas, London, Los Angeles, New York and San Francisco.

The majority of our revenue historically is from professional services performed on a fixed-price basis; however, we also perform services on a time-and-materials basis. Typically, the first portion of an engagement involves a strategy project or a discovery phase lasting 30 to 60 days, which we perform on a fixed-price basis. This work enables us to determine with our clients the scope of successive phases for design and implementation, which in total generally last three to nine months, and to decide whether we will perform these additional phases for a fixed price or on a time-and-materials basis. Whether we use fixed pricing or time-and-material pricing depends upon our assessment of the project's risk, how precisely our clients are able to define the scope of activities they wish us to perform and client preference. Fixed prices are based on estimates from senior personnel in our consulting organization who project the length of the engagement, the number of people required to complete the engagement and the skill level and billing rates of those people. We then adjust the fixed price based on various qualitative risk factors such as the aggressiveness of the delivery deadline, the technical complexity of the solution and the value of the solution delivered to the client. We typically ask clients to pay 25%-50% of our fixed-price projects in advance to enable us to secure a project team in a timeframe that is responsive to the client's needs. We typically bill the remainder in advance of the work.

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### RESULTS OF OPERATIONS

The following table sets forth the percentage of net revenues of certain items included in Inforte's statement of income:

	% of Net Revenue Three months ended March 31,	
	2002	2003
Revenues		
Revenue before reimbursements (net revenue)	100.0%	100.0%
Reimbursements	15.6	11.4
	-----	-----
Total Revenue	115.6	111.4
	-----	-----
Operating expenses:		
Project personnel and related expenses	53.0	52.4
Reimbursements	15.6	11.4

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Sales and marketing	16.1	16.9
Recruiting, retention and training	4.0	1.7
Management and administrative	31.8	28.1
	-----	-----
 Total operating expenses *	 120.5	 110.5
	-----	-----
 Operating income (loss)	 (4.9)	 0.8
Interest income, net and other	6.0	5.1
	-----	-----
Pretax income	1.1	5.9
 Income tax expense (benefit)	 (0.4)	 0.5
	-----	-----
 Net income	 1.4%	 5.4%
	=====	=====
 *Total operating expenses, excluding reimbursements	 104.9%	 99.1%

Three months ended March 31, 2003 and 2002  
-----

Net revenue. Net revenue excludes reimbursable expenses that are billed to our clients. Net revenue decreased 12% to \$8.3 million for the quarter ended March 31, 2003 from \$9.4 million for the quarter ended March 31, 2002. We attribute this decline in revenues to the slow growth rate of U.S. and European economies and the negative impact that economic uncertainty has had on information technology (IT) spending. These factors have depressed the market for strategic technology services since late 2000. For the quarter ended March 31, 2003, we had 24 significant clients with each of these clients contributing \$1.3 million to revenue on average on an annualized basis. For the quarter ended March 31, 2002, we had 30 significant clients with each of these clients contributing \$1.2 million to revenue on average on an annualized basis.

Sequentially, net revenue decreased 17% to \$8.3 million in the March 2003 quarter from \$9.9 million in the December 2002 quarter. This sequential decline resulted as existing projects and revenue streams ended around the end of calendar year 2002 and replacement projects and revenue streams did not begin right away at the beginning of calendar year 2003. In our first quarter 2003 earnings release on April 10, 2003, we set net revenue guidance as follows: a range of \$7.5 million to \$9.0 million for the second quarter 2003, \$9.0 million for the third quarter 2003 and \$8.5 million for each quarter beyond. We believe that revenue-driven corporate profit growth must occur before broad-based growth in IT spending resumes.

Project personnel and related expenses. Project personnel and related expenses consist primarily of compensation and benefits for our professional employees who deliver consulting services, non-reimbursable costs and any estimated revisions for our allowance for doubtful accounts. All labor costs for project personnel are

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included in project personnel and related expenses. These expenses decreased 13% to \$4.3 million for the quarter ended March 31, 2003 from \$5.0 million for the quarter ended March 31, 2002. These decreases resulted from reductions in consulting headcount. We employed 153 consultants on March 31, 2003, down from

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191 one year earlier. Project and personnel related expenses represented 52.4% of net revenue for the quarter ended March 31, 2003, down from 53.0% in the quarter ended March 31, 2002, as billable headcount declined at a slightly greater rate than the rate of revenue decline.

**Sales and marketing.** Sales and marketing expenses consist primarily of compensation, benefits, bonus and travel costs for employees in the market development and practice development groups and costs to execute marketing programs. Sales and marketing expenses decreased 7% to \$1.4 million for the quarter ended March 2003 from \$1.5 million in quarter ended March 2002. As a percent of revenue, these expenses increased to 16.9% for the quarter ended March 31, 2003 compared to 16.1% for the quarter ended March 31, 2002, as the rate of revenue decline was greater than the rate of expense decline.

**Recruiting, retention and training.** Recruiting, retention and training expenses consist of compensation, benefits and travel costs for personnel engaged in human resources; costs to recruit new employees; costs of human resource programs; and training costs. These expenses decreased 62% to \$142,000 for the quarter ended March 31, 2003 from \$374,000 for the quarter ended March 31, 2002. As a percent of net revenue, these costs decreased to 1.7% in the quarter ended March 31, 2003 from 4.0% in the quarter ended March 31, 2002. The decrease in spending results primarily from lower recruiting costs and secondarily from less training activity due to lower company-wide headcount. In the current economic environment of higher unemployment, recruiting efforts require fewer expenses such as recruiting finder fees, signing bonuses, relocation allowances and employee referral bonuses to identify and attract qualified candidates. Total headcount was 205 as of March 31, 2003, down from 258 as of March 31, 2002.

**Management and administrative.** Management and administrative expenses consist primarily of compensation, benefits and travel costs for management, finance, information technology and facilities personnel, together with rent, telecommunications, audit, legal, business insurance and depreciation and amortization of capitalized computers, purchased software and property. These expenses decreased 22% to \$2.3 million for the quarter ended March 31, 2003, from \$3.0 million for the quarter ended March 31, 2002. As a percent of net revenue, management and administrative expenses were 28.1% for the quarter ended March 31, 2003, down from 31.8% for the quarter ended March 31, 2002, as management and administrative expenses declined at a greater rate than did revenue. Most management and administrative departments had lower expenses in first quarter of 2003 versus first quarter 2002 due to either lower headcount in the department or lower activity levels due to company-wide headcount declines. Management and administrative employees declined to 28 as of March 31, 2003 from 37 as of March 31, 2002. Total employees declined to 205 as of March 31, 2003 from 258 as of March 31, 2002.

**Interest income, net and other.** During the quarter ended March 31, 2003, interest income, net and other was \$421,000, down from \$564,000 for the quarter ended March 31, 2002. Sequentially, interest income, net and other declined by 8% from \$457,000 in the quarter ending December 31, 2002 to \$420,000 in the quarter ended March 31, 2003. These decreases were due to the reinvestment of matured securities into similar type securities at lower market interest yields and also due to the lower average cash balances as a result of Inforte's stock buyback program. Since inception of this stock buy-back program in the March 2001 quarter we have repurchased \$25 million of common stock, however, there were no repurchases during the quarter ended March 31, 2003. We expect interest income, net and other to decline further to around \$385,000 in second quarter 2003.

**Income tax expense.** Inforte's effective tax rate for the March 2003 quarter was 9.0% compared to a rate of negative 35.1% for the March 2002 quarter. The increase in the effective tax rate is a result of a higher operating income in the March 2003 quarter offset against a benefit received from a reversal of

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prior year provisions

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for state and foreign income tax exposure which are no longer relevant. Negative operating income in the March 2002 quarter resulted in a tax benefit for that quarter.

Liquidity and capital resources. Cash and cash equivalents increased from \$19.1 million on December 31, 2002 to \$26.5 million on March 31, 2003. Short-term marketable securities decreased from \$31.3 million to \$25.1 million over the same period. Long term marketable securities decreased from \$16.8 million to \$15.9 million during the first quarter of 2003. In total, cash and cash equivalents, short-term and long-term marketable securities increased from \$67.3 million to \$67.6 million from December 31, 2002 to March 31, 2003. Short-term and long-term marketable securities are available-for-sale securities consisting of commercial paper, U.S. government or municipal notes and bonds, corporate bonds and corporate auction preferreds.

During the March 2003 quarter, Inforte's cash flow from operations was positive \$416,000 and capital expenditures were \$158,000, resulting in a positive \$258,000 free cash flow (cash flow from operation minus capital expenditures). Additionally, financing activities resulted in a cash inflow of \$99,000 from employees participating in stock purchase and stock option plans.

During the March 2003 quarter, Inforte did not repurchase any shares of stock. Our board of directors approved a \$25.0 million stock repurchase program on January 24, 2001 and as of March 31, 2003, the entire amount authorized had been repurchased. The board of directors approved an additional \$5.0 million stock repurchase program on August 22, 2002, although we stated at that time that we had no present plans to make additional repurchases of stock. The entire \$5.0 million remains authorized for repurchase as of March 31, 2003. At quarter end, Inforte had 10,864,925 shares outstanding and \$67.6 million in cash and marketable securities, resulting in \$6.22 of cash and marketable securities per basic share. As of March 31, 2003, the public float (shares not held by executive officers and directors) totaled 5.8 million shares or 53% of total outstanding shares.

Inforte believes that its current cash, cash equivalents and marketable securities will be sufficient to meet working capital and capital expenditure requirements for the foreseeable future.

All highly liquid investments with maturities of three months or less when purchased are considered cash equivalents. Cash and cash equivalent balances consist of obligations of U.S. and U.K. banks, high-grade commercial paper and other high quality, short-term obligations of U.S. companies. Short-term and long-term marketable securities are available-for-sale securities that are recorded at fair market value. The difference between amortized cost and fair market value, net of tax effect, is shown as a separate component of stockholders' equity. The cost of available-for-sale securities is adjusted for amortization of premiums and discounts to maturity. Interest and amortization of premiums and discounts for all securities are included in interest income.

Inforte has several operating leases that have contractual cash obligations for future payments. There are no other contractual obligations that require future cash obligations or other commitments. The table below identifies all future commitments.

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Contractual  
Obligations  
-----

Payments Due by Period

	Total	Q2-Q4 2003	2004	2005
Long-term debt	0	0	0	0
Capital lease obligations	0	0	0	0
Operating leases	6,922	1,415	2,463	2,475
Unconditional purchase obligations	0	0	0	0
Other long-term obligations	0	0	0	0
Total contractual cash obligations	6,922	1,415	2,463	2,475

### Risk Factors

In addition to other information in this Form 10-Q, the following risk factors should be carefully considered in evaluating Inforte and its business because such factors currently may have a significant impact on Inforte's business, operating results and financial condition. As a result of the risk factors set forth below and elsewhere in this Form 10-Q, and the risk factors discussed in Inforte's other Securities and Exchange Commission filings, actual results could differ materially from those projected in any forward-looking statements.

#### RISKS RELATED TO INFORTE

If we are unable to accurately forecast our quarterly revenue, our profitability may be reduced or eliminated. The level of IT spending growth by current and potential clients in recent years has become less certain. We believe the uncertainty stems from the slowing of growth in Gross Domestic Product that began in the United States in the second half of calendar 2000, in addition to the overhang that exists from large technology investments relating to Y2K and the Internet. In some cases the uncertainty has reduced the overall number and size of projects available for bid. In other cases the uncertainty has resulted in project deferrals, project scope reductions, longer decision making cycles or limited follow-on projects at existing clients. With fewer opportunities available in the market, competition on some opportunities has become more intense. While our revenue forecast methods are sophisticated and have proven accurate historically, we believe the current environment adds greater risk and uncertainty to our forecasts. If we fail to accurately forecast revenue, our actual results may differ materially from the amounts planned, and our profitability may be reduced or eliminated.

If we fail to identify and successfully transition to the latest and most demanded solutions or keep up with an evolving industry, we will not compete successfully for clients and our profits may decrease. If we fail to identify the latest solutions, or if we identify but fail to successfully transition our business to solutions with growing demand, our reputation and our ability to compete for clients and the best employees could suffer. If we cannot compete successfully for clients, our revenues may decrease. Also, if our projects do not involve the latest and most demanded solutions, they would generate lower fees. Because our market changes constantly, some of the most important challenges facing us are the need to:

- o develop new services that meet changing customer needs;

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- o identify and effectively market solutions with growing demand during a period of slower technological advancement and adoption;
- o enhance our current services;
- o continue to develop our strategic expertise;
- o effectively use the latest technologies; and
- o influence and respond to emerging industry standards and other technological changes.

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All of these challenges must be met in a timely and cost-effective manner. We cannot assure you that we will succeed in effectively meeting these challenges, especially during a substantial economic slowdown when adjusting the size of the business for lower demand diverts resources and senior management's attention.

If we fail to satisfy our clients' expectations, our existing and continuing business could be adversely affected. If we fail to satisfy the expectations of our clients, we could damage our reputation and our ability to retain existing clients and attract new clients. In addition, if we fail to perform adequately on our engagements, we could be liable to our clients for breach of contract. Although most of our contracts limit the amount of any damages based upon the fees we receive we could still incur substantial cost, negative publicity, and diversion of management resources to defend a claim, and as a result, our business results could suffer.

We may be unable to hire and retain employees who are highly skilled, which would impair our ability to perform client services, generate revenue and maintain profitability. If we are unable to hire and retain highly-skilled individuals, our ability to retain existing business and compete for new business will be harmed. Individuals who have successfully sold and delivered services similar to those we provide to our clients are limited and competition for these individuals is intense. Further, in the current depressed spending environment, individuals who were previously successful may no longer be successful. Identifying individuals who will succeed in this environment is extraordinarily difficult. To attract and retain these individuals we invest a significant amount of time and money. In addition, we expect that both bonus payments and equity ownership will be an important component of overall employee compensation. In the current economic and market environment, overall bonus payments have been below target, increasing the risk that key employees will leave Inforte. Also, if our stock price does not increase over time, it may be more difficult to retain employees who have been compensated with stock options. Options granted to employees from the IPO date, February 17, 2000, through March 31, 2003 have exercise prices of \$4.76 to \$71.81. The average exercise price of all options outstanding at March 31, 2003 is \$13.79. Since the current market price for Inforte stock has recently been below this average strike price, it may be more difficult to retain employees. If key employee turnover rates grow to unacceptable levels because compensation is not at competitive rates, Inforte may increase the level of stock option grants or cash compensation. These actions would reduce net income (loss) per share and may cause Inforte to become unprofitable.

If we fail to adequately manage rapid changes in demand, our profitability and cash flow may be reduced or eliminated. If we cannot keep pace with the rapid changes in demand, we will be unable to effectively match resources with demand, and maintain high client satisfaction, which may eliminate our profitability and our ability to achieve positive free cash flow. Our business grew dramatically from 1993 through 2000. For example, our net revenue increased by 100% or more for seven consecutive years, reaching \$63.8 million in 2000. As a result of the current depressed IT spending environment and overcapacity in our industry

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however, net revenue has declined in each of the last two years, dropping to \$40.4 million. If the level of spending declines further, we may not be profitable or achieve positive free cash flow. If, on the other hand, our growth exceeds our expectations, our current resources and infrastructure may be inadequate to handle the growth.

If our marketing relationships with software vendors deteriorate, we would lose their client referrals. If these vendors continue to increase their professional services revenue, our revenue could be adversely affected. We currently have marketing relationships with software vendors, including Siebel and Vignette. Although we have historically received a large number of business leads from these and other software vendors to implement their products, they are not required to refer business to us and they may terminate these relationships at any time. If our relationships with these software vendors deteriorate, we may lose their client leads and our ability to develop new clients could be negatively impacted. Any decrease in our ability to obtain clients may cause a reduction in our net revenues. Historically our software partners have primarily relied on licensing fees and maintenance contracts to generate revenue. However, more recently as software licensed sales have declined, software vendors have sought to supplement their revenue through increased implementation services for their software. This business strategy puts us in competition with our software partners on some deals, reducing client leads and our ability to develop new clients and revenue.

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If we are unable to rapidly integrate third-party software, we may not be able to deliver solutions to our clients on a timely basis, resulting in lost revenues and potential liability. In providing client services, we recommend that our clients use software applications from a variety of third-party vendors. If we are unable to implement and integrate this software in a fully functional manner for our clients, we may experience difficulties that could delay or prevent the successful development, introduction or marketing of services. Software often contains errors or defects, particularly when first introduced or when new versions or enhancements are released. Despite internal testing and testing by current and potential clients, our current and future solutions may contain serious defects due to third-party software or software we develop or customize for clients. Serious defects or errors could result in liability for damages, lost revenues or a delay in implementation of our solutions.

Our revenues could be negatively affected by the loss of a large client or our failure to collect a large account receivable. At times, we derive a significant portion of our revenue from large projects for a limited number of varying clients. During the first quarter of 2003 we had three clients that contributed 10% or more of our net revenue. These clients accounted for 40% of net revenue while the five and ten largest clients accounted for 56% and 79% respectively. Although these large clients vary from time to time and our long-term revenues do not rely on any one client, our revenues could be negatively affected if we were to lose one of our top clients or if we were to fail to collect a large account receivable. In addition, many of our contracts are short-term and our clients may be able to reduce or cancel our services without incurring any penalty. If our clients reduce or terminate our services, we would lose revenue and would have to reallocate our employees and our resources to other projects to attempt to minimize the effects of that reduction or termination. Accordingly, terminations, including any termination by a major client, could adversely impact our revenues. We believe the uncertain economic environment increases the probability that services may be reduced or canceled.

If we estimate incorrectly the time required to complete our projects, we will

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lose money on fixed-price contracts. Historically, a majority of our contracts are fixed-price contracts, rather than contracts in which the client pays us on a time-and-materials basis. We must estimate the number of hours and the materials required before entering into a fixed-price contract. Our future success will depend on our ability to continue to set rates and fees accurately and to maintain targeted rates of employee utilization and project quality. If we fail to accurately estimate the time and the resources required for a project, any required increase in the time and resources to complete the project could cause our profits to decline.

Fluctuations in our quarterly revenues and operating results due to cyclical client demand may lead to reduced prices for our stock. Our quarterly revenues and operating results have fluctuated significantly in the past and we expect them to continue to fluctuate significantly in the future. Historically, we have signed more client contracts during the first and second quarters than during the third and fourth quarters. We attribute this to the budgeting cycles of our customers, most of whom have calendar-based fiscal years and as a result are more likely to initiate projects during the first half of the year. In the first quarter of 2002, we did experience an increase in demand which did allow our net revenue in the second quarter 2002 to exceed the first quarter 2002 level. We believe that increase in demand was due to positive seasonal effects, while the subsequent lower revenue in the third quarter 2002 was due to negative seasonal effects. However, the decline in revenue during the first quarter of 2003 seems to indicate that the positive seasonal effects to date in 2003 have been offset by the continuing weakness in information technology spending. This existence of both seasonal and cyclical effects does make it more difficult to predict demand, and if we are unable to predict client demand accurately in a slower growth or distressed economic environment, our expenses may be disproportionate to our revenue on a quarterly basis and our stock price may be adversely affected.

Others could claim that we infringe on their intellectual property rights, which may result in substantial costs, diversion of resources and management attention, and harm to our reputation. A portion of our business involves the development of software applications for specific client engagements. Although we believe that our

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services do not infringe on the intellectual property rights of others, we may be the subject of claims for infringement, which even if successfully defended could be costly and time-consuming. An infringement claim against us could materially and adversely affect us in that we may:

- o experience a diversion of our financial resources and management attention;
- o incur damages and litigation costs, including attorneys' fees;
- o be enjoined from further use of the intellectual property;
- o be required to obtain a license to use the intellectual property, incurring licensing fees;
- o need to develop a non-infringing alternative, which could be costly and delay projects; and
- o have to indemnify clients with respect to losses incurred as a result of our infringement of the intellectual property.

Because we are newer and smaller than many of our competitors, we may not have the resources to effectively compete, causing our revenues to decline. Many of our competitors have longer operating histories, larger client bases, longer relationships with clients, greater brand or name recognition, and significantly greater financial, technical, marketing, and public relations resources than we



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do. We may be unable to compete with full-service consulting companies, including the former consulting divisions of the largest global accounting firms, who are able to offer their clients a wider range of services. If our clients decide to take their IT strategy and technology projects to these companies, our revenues may decline. It is possible that in uncertain economic times our clients may prefer to work with larger firms to a greater extent than normal. In addition, new professional services companies may provide services similar to ours at a lower price, which could cause our revenues to decline.

Our expansion and growth internationally could negatively affect our business. For the quarter ended March 31, 2003, our international net revenue exceeded 20% of our total net revenue. We face additional risks internationally that we do not face domestically. Such risks include longer customer payment cycles, adverse taxes and compliance with local laws and regulations. Further, the effects of fluctuations in currency exchange rates may adversely affect the results of operations. Finally, as the U.S. economic slowdown has spread to the rest of the world, our ability to obtain international net revenue going forward will likely be reduced. These risk factors, as well as others not cited here, may negatively impact our business.

As offshore development becomes accepted as a viable alternative to doing work domestically, our pricing and revenue may be negatively affected. Gradually, over the past two decades, numerous IT service firms have been founded in countries such as India, which have well-educated and technically trained English-speaking workforces available at wage rates that are only a fraction of U.S. and European wages rates. Additionally, some larger clients have established internal IT operations at offshore locations. While traditionally we have not competed with offshore development, presently this form of development is seeing rapid and increasing acceptance in the market, especially for routine and repetitive types of development. While offshore development has greater risk due to distance, geopolitical and cultural issues, we believe its lower cost advantage will likely overwhelm these risks. Inforte does not currently intend to establish offshore development capabilities as some of our competitors have done. Instead, we intend to continue our ongoing evolution toward more valued and more differentiated service offerings--including more organizational strategy, process design and organizational change consulting--which are difficult for offshore developers to replicate. If we are unable to evolve our service offerings, or if the rate of acceptance of offshore development advances even faster than we anticipate, then our pricing and our revenue may be negatively affected.

### RISKS RELATED TO OUR INDUSTRY

If the rate of adoption of advanced information technology slows substantially, our revenues may decrease. We market our services primarily to firms that want to adopt information technology that provides an attractive return on investment or helps provides a sustainable competitive advantage. Our revenues could decrease if companies decide not to integrate the latest technologies into their businesses due to economic factors, governmental regulations, financial constraints or other

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reasons. Inforte's market research suggests that the level of information technology spending in the United States is closely linked with the growth rate of the Gross Domestic Product (GDP). The slowdown in the U.S. GDP growth rate that began in the second half of 2000 has caused a slower rate of adoption of advanced information technology by our target clients. We expect information technology spending and Inforte revenue to be highly dependent on the health of the U.S. economy. We believe that corporate revenue driven profit growth must resume for IT spending to improve. If the overall level of business capital

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investment remains depressed or declines, our revenue may decline further.

If the supply of information technology companies and personnel continues to exceed demand, this may adversely impact the pricing of our projects and our ability to win business. Beginning in the second half of 2000, many firms in our industry announced significant employee layoffs and lower rates of utilization of billable personnel. An oversupply of technology professionals may reduce the price clients are willing to pay for our services. An oversupply may also increase the talent pool for potential clients who may choose to complete projects in-house rather than use an outside consulting firm such as Inforte. Lower utilization rates increase the likelihood that a competitor will reduce their price to secure business in order to improve their utilization rate. The extent to which pricing and our ability to win business may be impacted is a function of both the magnitude and duration of the supply and demand imbalance in our industry.

Geopolitical instability may cause our revenues to decrease. Our clients often avoid large IT spending commitments during periods of geopolitical instability and economic uncertainty. The aftermath of the war in Iraq, the possibility of terrorists attacking the United States' interests, or geopolitical concerns in other areas such as North Korea may cause clients to freeze their decision making processes. This would slow demand for our services and would negatively impact our revenue.

### RISKS RELATED TO THE OWNERSHIP OF OUR COMMON STOCK

Our stock price could be extremely volatile, like many technology stocks. The market prices of securities of technology companies, particularly information technology services companies, have been highly volatile. We expect continued high volatility in our stock price, with prices at times bearing no relationship to Inforte's operating performance. Inforte's average trading volume during the first quarter of 2003 averaged approximately 19,000 shares per day. On any particular day, Inforte's trading volume can be less than 1,000 shares, increasing the potential for volatile stock prices.

Volatility of our stock price could result in expensive class action litigation. If our common stock suffers from volatility like the securities of other technology companies, we have a greater risk of further securities class action litigation claims. One such claim is pending presently. Litigation could result in substantial costs and could divert our resources and senior management's attention. This could harm our productivity and profitability.

Officers and directors own a significant percentage of outstanding shares and, as a group, may control a vote of stockholders. As of March 31, 2003 our executive officers and directors own over 47% of the outstanding shares of our common stock. The largest owners and their percentage ownership are set forth below:

o Philip S. Bligh	22.3%
o Stephen C.P. Mack	17.3%
o Nick Padgett	6.5%

If the stockholders listed above act or vote together with other employees who own significant shares of our common stock, they will have the ability to control the election of our directors and the approval of any other action requiring stockholder approval, including any amendments to the certificate of incorporation and mergers or sales of all or substantially all assets, even if the other stockholders perceive that these actions are not in their best interests.

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Our stock repurchase program has had the effect of increasing the concentration of insider ownership. If we make further repurchases, insider ownership could increase further.

Over time, the influence or control executive officers have on a stockholder vote may decrease as officers supplement below-market salaries and diversify overall equity wealth with sales of Inforte stock. As permitted by SEC Rule 10b5-1, Inforte executive officers have or may set up a predefined, structured stock trading program. The trading program allows brokers acting on behalf of company insiders to trade company stock during company blackout periods or while the insiders may be aware of material, non public information, if the transaction is performed according to a pre-existing contract, instruction or plan that was established with the broker during a non-blackout period and when the insider was not aware of any material, non-public information. Inforte executive officers may also trade company stock outside of plans set up under SEC Rule 10b5-1, however such trades would be subject to company blackout periods and insider trading rules.

The authorization of preferred stock, a staggered board of directors and supermajority voting requirements will make a takeover attempt more difficult, even if the takeover would be favorable for stockholders. Inforte's certificate of incorporation and bylaws may have the effect of deterring, delaying or preventing a change in control of Inforte. For example, our charter documents provide for:

- o the ability of the board of directors to issue preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval;
- o the inability of our stockholders to act by written consent or to call a special meeting; advance notice provisions for stockholder proposals and nominations to the board of directors;
- o a staggered board of directors, with three-year terms, which will lengthen the time needed to gain control of the board of directors; and;
- o supermajority voting requirements for stockholders to amend provisions of the charter documents described above.

We are also subject to Delaware law. Section 203 of the Delaware General Corporation Law prohibits us from engaging in a business combination with any significant stockholder for a period of three years from the date the person became a significant stockholder unless, for example, our board of directors approved the transaction that resulted in the stockholder becoming an interested stockholder. Any of the above could have the effect of delaying or preventing changes in control that a stockholder may consider favorable.

### Item 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

In all categories of cash, cash equivalents and short-term and long-term marketable securities, Inforte invests only in highly liquid securities of high credit quality. All short-term investments bear a minimum Standard & Poor's rating of A1 or Moody's investor service rating of P1. All long-term investments bear a minimum Standard & Poor's rating of A or Moody's investor service rating of A2.

Inforte has a large cash and marketable securities balance that generates substantial interest income relative to its size. During 2002 and year-to-date in 2003, the majority of Inforte's pretax income was from interest income. A drop in short-term market interest rates will have a significant impact on

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Inforte's ability to be profitable as interest income drops. Thus, a drop in short-term market interest rates will increase the revenue level required to be profitable, and increases the risk that Inforte will lose money.

### Item 4. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Corporation's disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934).

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Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective.

#### Changes in Control Procedures

No significant changes were made in the Corporation's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Inforte Corp. and Philip S. Bligh, Stephen C.P. Mack and Nick Padgett, officers of Inforte, have been named as defendants in *Mary C. Best v. Inforte Corp.; Goldman, Sachs & Co.; Salomon Smith Barney, Inc.; Philip S. Bligh; Stephen C.P. Mack and Nick Padgett*, Case No. 01 CV 10836, filed on November 30, 2001 in Federal Court in the Southern District of New York. The case is also known as *In re Inforte Corp. Initial Public Offering Securities Litigation*. An amended class action complaint was filed on April 19, 2002. The amended complaint alleges violations of federal securities laws in connection with our initial public offering occurring in February 2000 and seeks certification of a class of purchasers of Inforte stock, unspecified damages, interest, attorneys' and expert witness fees and other costs. The amended complaint does not allege any claims relating to any alleged misrepresentations or omissions with respect to our business. The individual defendants (Messrs. Bligh, Mack and Padgett) have been dismissed from the case without prejudice pursuant a stipulated dismissal and a tolling agreement. We have moved to dismiss the plaintiff's case. On February 19, 2002, the Court granted this motion in part, denied it in part and ordered that discovery in the case may commence. The Court dismissed with prejudice the plaintiff's purported claim against Inforte under Section 10(b) of the Securities Exchange Act of 1934, but left in place the plaintiff's claim under Section 11 of the Securities Act of 1933.

### Item 2. Changes in Securities and Use of Proceeds

None

### Item 3. Defaults upon Senior Securities

None

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Item 4. Submission of Matter to a Vote of Security Holders  
None

Item 5. Other Information  
None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number -----	Exhibit -----
99.1	Certification by Philip Bligh pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification by Nick Padgett pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

In a Report on Form 8-K filed on April 10, 2003, Inforte reported, under Item 12, "Results of Operation and Financial Condition," the issuance of a release regarding earnings for the first quarter of 2003.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Inforte Corp.

By: /s/ Nick Padgett

May 14, 2003

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Nick Padgett,  
Chief Financial Officer

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CERTIFICATIONS

I, Philip Bligh, certify that:

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1. I have reviewed this quarterly report on Form 10-Q of Inforte Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

By: /s/ Philip S. Bligh

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Philip S. Bligh,  
Chief Executive Officer

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I, Nick Padgett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Inforte Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the

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circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

May 14, 2003

By: /s/ Nick Padgett

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Nick Padgett,  
Chief Financial Officer