INFORTE CORP
Form 10-Q
May 15, 2002

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

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

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) Yes X No ___, and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

The number of shares outstanding of the Registrant's Common Stock as of March 31, 2002 was 11,802,025.

INFORTE CORP.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INFORTE CORP.
CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

	MAR 31, 2001 (Unaudited)	JUN 30, 2001 (Unaudited)	SEP 30, 2001 (Unaudited)	DEC 3 2001
ASSETS				
Current assets:				
Cash and cash equivalents	$44,123	$61,849	$27,202	$20,20
Short-term marketable securities	34,684	17,780	22,417	32,66
Accounts receivable	7,684	8,422	8,191	6,53
Allowance for doubtful accounts	(1,150)	(1,150)	(1,150)	(1,15
Accounts receivable, net	6,534	7,272	7,041	5,38
Prepaid expenses and other current assets	2,170	2,291	1,736	2,00
Income taxes recoverable	-	-	-	-
Deferred income taxes	909	910	940	1,62
Total current assets	88,420	90,102	59,336	61,89
Computers, purchased software and property	4,599	4,683	4,177	3,77
Less accumulated depreciation and amortization	1,831	2,208	2,022	1,91
Computers, purchased software and property, net	2,768	2,475	2,155	1,86
Long-term marketable securities	5,293	5,620	27,091	22,24
Deferred income taxes	504	580	690	46
Total assets	$96,985	$98,777	$89,272	$86,45
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 534	$ 628	$ 753	$ 40
Income taxes payable	454	419	547	16
Accrued expenses	4,600	5,018	5,674	5,52
Deferred revenue	7,316	8,119	9,801	8,16
Total current liabilities	12,904	14,184	16,775	14,25
Stockholders' equity:				
Common stock, $0.001 par value authorized- 50,000,000 shares; issued and outstanding (net of treasury stock)- 11,802,025 as of Mar 31, 2002	13	13	12	1
Additional paid-in capital	74,717	75,000	75,424	77,91
Cost of common stock in treasury (1,519,902 shares as of Mar 31, 2002)	(472)	(472)	(13,170)	(14,50
Retained earnings	9,687	9,806	9,914	8,56
Accumulated other comprehensive income	136	246	317	21
Total stockholders' equity	84,081	84,593	72,497	72,20
Total liabilities and stockholders' equity	$96,985	$98,777	$89,272	$86,45

See notes to consolidated financial statements

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INFORTE CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands except share and per share data)

	THREE MONTHS ENDED MARCH 31,	
	2001	2002
	(Unaudited)	(Unaudited)
Revenues		
Revenue before reimbursements (net revenue)	$14,051	$ 9,434
Reimbursements	1,739	1,467
Total Revenue	15,790	10,901
Operating expenses:		
Project personnel and related expenses	7,397	5,002
Reimbursed expenses	1,739	1,467
Sales and marketing	1,859	1,518
Recruiting, retention and training	924	374
Management and administrative	3,447	3,003
Total operating expenses	15,366	11,364
Operating income (loss)	424	(463)
Interest income, net and other	1,013	564
Income before income taxes	1,437	101
Income tax expense (benefit)	503	(35)
Net income	$ 934	$ 136
Earnings per share:		
-Basic	$0.07	$0.01
-Diluted	$0.07	$0.01
Weighted average common shares outstanding:		
-Basic	12,720	11,655
-Diluted	13,700	12,213

See notes to consolidated financial statements

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INFORTE CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	THREE MONTHS ENDED MARCH 31, 2001 (Unaudited)	THREE MONTHS ENDED MARCH 31, 2002 (Unaudited)
Cash flows from operating activities		
Net income	$ 934	$ 136
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	431	396
Non-cash compensation	75	-
Deferred income taxes	(171)	51
Changes in operating assets and liabilities		
Accounts receivable	2,702	(862)
Prepaid expenses and other current assets	(265)	61
Accounts payable	(48)	570
Income taxes	2,000	12
Accrued expenses and other	(3,102)	(413)
Deferred revenue	(1,258)	399
Net cash provided by operating activities	1,298	350
Cash flows from investing activities		
Decrease in marketable securities	652	5,736
Purchases of property and equipment	(201)	(61)
Net cash provided by investing activities	451	5,675
Cash flows from financing activities		
Stock option and purchase plans	450	389
Purchase of common stock	(472)	(211)
Net cash provided by (used in) financing activities	(22)	178
Effect of changes in exchange rates on cash	4	(7)
Net increase in cash and cash equivalents	1,731	6,196
Cash and cash equivalents, beg. of period	42,392	20,208
Cash and cash equivalents, end of period	$44,123	$26,404

See notes to consolidated financial statements

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Inforte Corp.
Notes to consolidated financial statements
(Unaudited)
March 31, 2001

(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, 2001 included in Inforte's annual report Form 10K (File No. 000-29239). The balance sheet at December 31, 2001 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, 2002 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) COST OF COMMON STOCK IN TEASURY
During the quarter ended March 31, 2002, Inforte repurchased 27,200 shares of stock for $0.3 million at an average price of $9.86. Of the shares repurchased, 22,000 were settled in the quarter for a total of $0.2 million. On January 24, 2001, the board of directors approved a $25.0 million stock repurchase program and as of March 31, 2002, $10.2 million remained authorized for repurchase.

(3) 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 then outstanding.

	Three Months Ended March 31,	
	2001	2002
	(unaudited)	
Basic weighted average shares	12,719,821	11,655,048
Effect of dilutive stock options	979,761	558,295
Diluted common and common equivalent shares	13,699,582	12,213,343

(4) 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 economic events that are not required to be recorded in determining net income, but rather are reported as a separate component of stockholders' equity. The Company reports foreign currency translation gains and losses, and unrealized gains and losses on investments, as components of comprehensive income. Total comprehensive loss was $76,204 for the three months ended March 31, 2002 and total comprehensive income was $984,661 for the three months ended March 31, 2001.

(5) INCOME TAXES

Inforte's effective tax rate for the March 2002 quarter was a benefit of 35.1% compared to an expense of 35.0% for the March 2001 quarter. The negative effective rate in 2002 is due to an operating loss for the quarter which includes interest income, a portion of which is tax advantaged.

(6) CONTINGINCIES

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. The named plaintiff in this case was previously Brian Padgett. An Amended Class Action Complaint for Violations of the Federal Securities Laws was filed on April 19, 2002. The amended complaint seeks certification of a class of purchasers of Inforte Corp. stock, unspecified damages, interest, attorneys' and expert witness fees and other costs. The amended complaint alleges violations of federal securities laws in connection with our initial public offering (IPO) occurring in February 2000. The complaint does not allege any claims relating to any alleged misrepresentations or omissions with respect to our business. We believe that we and our officers have defenses to the claims and we intend to vigorously defend the lawsuit.

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 our resources with the demand during the current economic downturn; (ii) attract and retain clients and satisfy our clients' expectations; (iii) recruit and retain qualified professionals; (iv) reliably forecast net revenue when information technology services spending is less certain overall, and in particular when spending at current clients and with our alliance partners, our two main revenue lead sources, is less certain; (v) accurately estimate the time and resources necessary for the delivery of our services; and (vi) build and maintain marketing relationships with leading software vendors. 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 Inforte on the date thereof, and Inforte assumes no obligation to update any forward-looking statements.

Overview

Strategic technology consultancy Inforte Corp. helps clients create strategies and implement technologies that capture, manage and integrate customer and other demand information into all aspects of the value chain, enabling companies to become more demand driven and demand responsive. We assist our clients in navigating through and succeeding in ever-changing economic environments by putting into action business and technology strategies that lower cost and drive revenue. Inforte's client advocacy approach and rigorous delivery methodologies have garnered the trust of Global 2000 clients, produced industry-leading project-efficiency metrics and helped Inforte earn references from 100 percent of its clients. Founded in 1993, Inforte is headquartered in Chicago and has offices in Atlanta, Dallas, London, Los Angeles, New York and San Francisco.

Inforte works with clients to determine how they can best design and implement demand chain management solutions to effectively capitalize on the latest information technology. The majority of revenue 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, and how precisely our clients are able to define the scope of activities they wish us to perform. 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 and the technical complexity of the solution.

We 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 bill the remainder in advance of the work performed based upon a predetermined billing schedule over the course of the engagement. We recognize net revenue from fixed-price contracts on the percentage-of-completion method, based on the ratio of costs incurred to total estimated costs. Amounts billed before we perform services are classified as deferred revenue. We bill time-and-materials projects twice per month on the 15th and last day of each month. We recognize time-and-materials net revenue as we perform the services. Through 2001, we did not include in our revenues the reimbursable expenses we charge to our clients, on either fixed-price or time-and-material projects, as we believe this is the most meaningful presentation of our income statement. In November 2001, the Financial Accounting Standards Board's Emerging Issues Task Force issued Topic D-103, "Income Statement Characterization of Reimbursements

Received for `Out-of-Pocket' Expenses Incurred" stating these costs should be characterized as revenue in the income statement if billed to customers. In the March 31, 2002 quarter, we included reimbursable expenses in revenue and expense and we have reclassified prior periods in the comparative consolidated financial statements as now required by the Financial Accounting Standards Board.

Our revenues and earnings may fluctuate from quarter to quarter based on factors within and outside of our control. These include:

- The variability in market demand for strategic technology professional services and our ability to win business;
- The degree of competitive pricing;
- The length of the sales cycle associated with our service offerings;
- The number, size and scope of our projects;
- The efficiency with which we deliver projects and use our people;
- The compensation that we pay our people; and
- Our ability to keep expenses within budget.

If net revenue do not increase at a rate at least equal to increases in expenses, our results of operations could be materially and adversely affected.

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, 2001	% of Net Revenue Three months ended March 31, 2002
Revenues		
Revenue before reimbursements (net revenue)	100.0%	100.0%
Reimbursements	12.4	15.6
Total Revenue	112.4	115.6
Operating expenses:		
Project personnel and related expenses	52.6	53.0
Reimbursements	12.4	15.6
Sales and marketing	13.2	16.1
Recruiting, retention and training	6.6	4.0
Management and administrative	24.5	31.8
Total operating expenses *	109.4	120.5
Operating income	3.0	-4.9
Interest income, net and other	7.2	6.0

Pretax income	10.2	1.1
Income tax expense (benefit)	3.6	-0.4
Net income	6.6%	1.4%
*Total operating expenses, excluding reimbursements	97.0%	104.9%

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Three months ended March 31, 2001 and 2002

Net Revenue. Net revenue excludes costs incurred that are billed to our clients. Net revenue decreased 33% to $9.4 million for the quarter ended March 31, 2002 from $14.1 million for quarter ended March 31, 2001. Although we have historically experienced growth in our revenues, the market for strategic technology consulting services has decreased significantly over the last 15 months due to the slower growth rate of the U.S. economy and the negative impact that heightened economic uncertainty has on information technology spending. 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. We had 40 significant clients during the quarter ended March 31, 2001, each contributing $1.4 million to revenue on average on an annualized basis.

Sequentially, revenue declined 11% to $9.4 million in the March 2002 quarter from $10.5 million in the December 2001 quarter. This sequential decline resulted from few new project wins from late October through the end of January. As a result, as existing projects and revenue streams ended throughout fourth quarter 2001 and first quarter 2002, replacement and revenue streams were not always available, and net revenue declined sequentially. Project wins increased in February and March 2002, and we believe these wins should allow our second quarter 2002 net revenue to equal or exceed our first quarter 2002 net revenue. Our revenue forecast does not indicate presently that this relative sequential strength will carry into the third quarter 2002, thus we believe net revenue could decline sequentially after the second quarter 2002. Accordingly, we expect net revenue to be $9.5 million for the June 2002 quarter and $8.5 million for the September 2002 quarter and all quarters going forward until information technology spending rebounds. We believe that such a rebound will not likely occur until a broad-based revenue-driven corporate profit recovery occurs.

Project personnel and related expenses. Project personnel and related expenses consist primarily of compensation and fringe benefits for our professional employees who deliver consulting services and non-reimbursable project costs. All labor costs for project personnel are included in project personnel and related expenses. These expenses decreased 32% to $5.0 million for the quarter ended March 31, 2002, from $7.4 million for quarter ended March 31, 2001. The decrease relates to recent reductions in consulting headcount. We employed 191 consultants on March 31, 2002, down from 324 one year earlier. Project personnel and related expenses represented 53.0% of net revenue for the quarter ended March 31, 2002, similar to 52.6% for the quarter ended March 31, 2001.

Since client research indicated that information technology spending was likely to remain at minimal levels during 2001, in June 2001 Inforte offered a six-to-nine-month voluntary leave of absence program and a voluntary resignation program to employees in underutilized areas. There were 90 people who participated in the programs. Individuals who selected the leave of absence program are receiving compensation at 20%-25% of regular pay if they remain available to return to full-time service. Individuals who chose the voluntary resignation package received pay through the end of August 2001. All costs related to resigning employees were included either in our June 2001 quarter results or our September 2001 quarter results. Salary costs for employees on leave of absence are expensed as incurred and included in the quarter ended March 2002. The costs of these programs will go to zero by the end of the June 2002 quarter. In October 2001 and in January 2002, Inforte again offered voluntary programs similar to the June 2001 program, however these latter programs were smaller in scope, involving approximately 20 and 30 people, respectively.

Sales and marketing. Sales and marketing expenses consist primarily of compensation, benefits and travel costs for employees in the market development and practice development groups and costs to execute marketing programs. Sales and marketing expenses decreased 18% to $1.5 million for the quarter ended March 2002 from $1.9 million in the same period in 2001. The spending decrease was due to lower travel expenses, lower discretionary marketing expenses, lower marketing headcount, and lower sales commission expense due to lower revenue. Sales and marketing expenses as a percentage of net revenue increased to 16.1% for the quarter ended March 31, 2002 from 13.2% for the quarter ended March 31, 2001. The increase in these expenses is due to the lower revenue base. We expect our June 2002 quarterly spending on sales and marketing to remain similar as a percentage of net revenue to the March 2002 quarter level.

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 resources programs; and training costs. These expenses decreased 60% to $0.4 million for

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the quarter ended March 31, 2002 from $0.9 million in the first quarter of 2001. The decline was due to lower human resources headcount, and less spending on retention and training activities due to lower overall headcount. Total headcount as of March 31, 2002 was 258, down from 428 one year earlier. As a percentage of revenue, recruiting, retention and training expenses declined to 4.0% from 6.6% in the prior year period, as we reduced expenses faster than the rate of revenue decline. The first quarter 2002 expense percentage was below the 5%-7% range we experienced throughout each quarter in 2001. We believe that future expense percentages for recruiting, retention and training are more likely to be in the 5%-7% level than to remain at 4%.

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, tele-communications, audit, and legal costs, and depreciation and amortization of capitalized computers, purchased software and property. These expenses decreased 13% to $3.0 million for the quarter ended March 31, 2002 from $3.4 million for the same period in 2001. The decrease in expenses was due to lower spending on information technology, executive travel, and reduced management and administrative headcount. As a percentage of net revenue, management and administrative expenses were 31.8% in the quarter ended March 31, 2002, up from 24.5% for the quarter ended March 31, 2001, as spending decreased at a slower rate than revenue declined. We expect our June 2002 quarterly spending on management and administrative to remain similar to the dollar level in the March 2002 quarter.

Interest income, net and other. During the quarter ended March 31, 2002, interest income, net and other was $0.6 million, down from $1.0 million for the quarter ended March 31, 2001. The decrease was due to lower market interest rates and lower average cash balances due to Inforte's stock buy back program. During the twelve months ended March 31, 2002, Inforte repurchased $14.2 million of stock under its stock buy back program.

Income tax expense, Inforte's effective tax rate for the March 2002 quarter was a benefit of 35.1% compared to an expense of 35.0% for the March 2001 quarter. The negative rate in 2002 is due to an operating loss for the quarter, combined with positive interest income, some of which is tax advantaged. More precisely, the first quarter 2002 income tax benefit was the sum of a) the operating loss times a 38% tax rate and b) interest income, net and other times a reduced tax rate of 25%. Our present expectation, which may change as the year progresses, is that the year-to-date income tax expense (benefit) at the end of each quarter in 2002 will be calculated similarly to the first quarter 2002 calculation, with a 38% tax rate on year-to-date operating income (loss) and a 25% tax rate on year-to-date interest income, net and other. The tax rate on interest income, net and other may vary from the 25% level in future quarters if the proportion of tax-advantaged marketable securities in our investment portfolio changes.

Liquidity and capital resources. Cash and cash equivalents increased from $20.2 million as of December 31, 2001 to $26.4 million at March 31, 2002. Short-term marketable securities decreased from $32.7 million as of December 31, 2001 to $27.2 million as of March 31, 2002. Long-term marketable securities decreased from $22.2 million as of December 31, 2001 to $21.7 million as of March 31, 2002. Short-term and long-term marketable securities are entirely conservative available-for-sale securities consisting of commercial paper, U.S. government or municipal notes and bonds, corporate bonds and corporate auction preferreds. In total, cash and cash equivalents, short-term and long-term marketable securities increased from $75.1 million to $75.3 million during the quarter ended March 31, 2002, an increase of $0.2 million.

During the March 2002 quarter, Inforte's cash flow from operations was positive $0.4 million and capital expenditures were $0.1 million, resulting in $0.3 million of free cash flow. Financing activities resulted in a cash inflow of $0.2 million, consisting of positive $0.4 million from employees participating in stock purchase and stock option plans and negative $0.2 million used to purchase Inforte common stock through our stock buy back program.

During the March 2002 quarter, Inforte repurchased 27,200 shares of stock for $0.3 million at an average price of $9.86. Of the shares purchased, 5,200 were settled in the month of April for $0.1 million. The board approved a $25.0 million stock repurchase program on January 24, 2001 and as of March 31, 2002, $10.2 million remained authorized for repurchase. As of March 31, 2002, Inforte had 11,802,025 shares outstanding and $75.3 million in cash and marketable securities, resulting in $6.38 of cash and marketable securities per basic share. As of March 31, 2002, the public float (shares not held by executive officers and directors) totaled 6.5 million shares or 55% of total outstanding shares.

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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. 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 which 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 securities available-for-sale 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.
Revenues pursuant to fixed-fee contracts are generally recognized as services are rendered on the percentage-of-completion method of accounting based on the ratio of costs incurred to total estimated costs. The cumulative impact of any revision in estimates of the percent complete is reflected in the period in which the changes become known. Revenues pursuant to time-and-material contracts are generally recognized as services are performed. Amounts billed prior to rendering services are classified as deferred revenue.

Financial Accounting Standards Board's Emerging Issues Task Force Topic D-103, "Income Statement Characterization of Reimbursements Received for `Out-of-Pocket' Expenses Incurred" states these costs should be characterized as revenue in the income statement if billed to customers. Beginning in 2002, we report reimbursable expenses as a separate line in revenue and expense and have reclassified prior periods in the comparative consolidated financial statements as now required by the Financial Accounting Standards Board.

An allowance for doubtful accounts is maintained for potential credit losses. The amount of the reserve is established analyzing all client accounts to determine credit risk. Criteria considered include slow payment history, no payment history, poor financial condition of the client and the size of the outstanding balance from the client.

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

Contractual Obligations	Payments Due by Period			
	Total	Q2-Q4 2002	2003-2004	2005 an beyond
Long-term debt	0	0	0	0
Capital lease obligations	0	0	0	0
Operating leases	9,693	1,835	4,807	3,051
Unconditional purchase obligations	0	0	0	0
Other long-term obligations	0	0	0	0
Total contractual cash obligations	0	0	0	0

Inforte Corp. has a wholly owned subsidiary, Inforte Investments Inc., a Delaware corporation, which functions as a holding company for Inforte Corp.'s investments. Inforte Investments Inc. has no operations other than holding investments of Inforte Corp. and no contractual commitments requiring future cash obligations. The financial position and results of operations for Inforte Investments Inc. are consolidated, in accordance with generally accepted accounting principles, in the consolidated financial statements reported in this document.

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 spending by clients and potential clients on information technology in the United States has slowed and become less certain. We believe the uncertainty stems from the rapid slowing of growth in Gross Domestic Product in the United States that began in the second half of calendar 2000. 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 or limited follow-on projects at existing clients. While our revenue forecast methods are sophisticated and have proven accurate historically, we believe the recent 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.

We focus on providing our clients solutions that employ the latest technologies. 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

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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 effectively use the latest technologies;

o continue to develop our strategic and technical expertise;

- influence and respond to emerging industry standards and other technological changes;
- identify and effectively market solutions with growing demand during a period of slower technological advancement and adoption.
- enhance our current services; and
- develop new services that meet changing customer needs.

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 or a recession when right sizing 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 our engagements, we could be liable to our clients for breach of contract. Although most of our contracts limit the amount of any damages to the fees we received, 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 achieve 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 the experience and expertise to market, sell and perform the services we provide to our clients are limited and competition for these individuals is intense. 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 reduced significantly, 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, 2002 have exercise prices of $8.56 to $71.81. The average exercise price of all options outstanding at March 31, 2002 is $15.81. 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 retention 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 earnings 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 cash flow from operations. Our business grew dramatically from 1993 through 2000. For example, our net revenue increased from $13.4 million in 1998, to $30.1 million in 1999 and to $63.8 million in 2000. As a result of the current U.S. economic environment and overcapacity in our industry however, net revenue in 2001 was $47.7 million, a 25% decline compared to 2000. For 2002, industry demand is highly dependent on the macroeconomic environment, which heavily influences our

clients' level of information technology services spending and competition among service providers. The level of information technology spending is subject to rapid positive and negative changes. If the level of spending declines further, we may not be profitable or achieve positive cash flow from operations in 2002. Currently, we expect net revenue to be $9.5 million in the second quarter of 2002 and $8.5 million in the last two quarters of 2002, to total $36 million for 2002. If, on the other hand, our growth exceeds our expectations, our current resources and infrastructure may be inadequate to handle the growth. Also, our senior management team has limited collective experience managing a public company or a business the current size of Inforte and our management team has limited collective experience managing a business during an economic slowdown or recession.

If our marketing relationships with software vendors deteriorate, we would lose their client referrals.

We currently have marketing relationships with software vendors, including Ariba, i2, Siebel and Vignette. Although we have historically received a large number of business leads from these 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.

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. In the March 2002 quarter, three clients each accounted for over 10% of net revenue, with our five largest clients accounting for 50% of net revenue and our ten largest clients accounting for 70% of net revenue. 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 these clients or if we were to fail to collect a large account receivable.

In addition, many of our contracts are short-term and provide that our clients can 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. During 2002 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 lose money on fixed-price contracts.

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 experienced our greatest sequential growth during the first and second quarters. We typically experience significantly lower sequential growth in 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 2001, this traditional seasonal pattern was overwhelmed by a cyclical decline in information technology spending, causing our net revenue to decline sequentially in each quarter of 2001. More recently, in February and March 2002, we did experience an increase in demand which should allow our net revenue in the second quarter 2002 to equal or exceed the first quarter 2002 level. We believe this increase in demand is seasonal and we do not belive a cyclical recovery in information technology spending is underway. 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 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:

- experience a diversion of our financial resources and management attention;

- incur damages and litigation costs, including attorneys' fees;

- be enjoined from further use of the intellectual property;
- be required to obtain a license to use the intellectual property, incurring licensing fees;
- need to develop a non-infringing alternative, which could be costly and delay projects; and
- 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 do. We may be unable to compete with full-service consulting companies, including the past and current 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 information technology professional services 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.

In the March 2002 quarter, international net revenue exceeded 20% of net revenue. As our international net revenue grows, we face additional risks 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, there are indications that the U.S. economic slowdown is spreading to the rest of the world, which could limit our ability to obtain international net revenue going forward. These risk factors, as well as others not cited here, may negatively impact our business.

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 reasons.

Inforte's market research suggests that the level information technology spending in the United States is closely linked with the growth rate of the Gross Domestic Product (GDP). The recent slowdown in the GDP growth rate 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 US economy.

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.

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 March 2002 quarter averaged approximately 32,000 shares per day. On any particular day, Inforte's trading volume can be less than 10,000 shares which increase 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, 2002 the executive officers and directors set forth below, own approximately 44.2% of the outstanding shares of our common stock and own individually the percentage set forth opposite their names:

- Philip S. Bligh 20.8%
- Stephen C.P. Mack 17.4%

o Nick Padgett 6.1%

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 the approval of our stockholders, 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.

Over time, the influence or control executive officers have on a stockholder vote will 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 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 when the insider was not aware of any material, non-public information.

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:

- 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;

- the inability of our stockholders to act by written consent or to call a special meeting;

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- advance notice provisions for stockholder proposals and nominations to the board of directors;

- a staggered board of directors, with three-year terms, which will lengthen the time needed to gain control of the board of directors; and

- 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 investments bear a minimum Standard & Poor's rating of A1, Moody's investor service rating of P1, or equivalent. Inforte believes that it does not have any material market risk exposure with respect to financial instruments.

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. The named plaintiff in this case was previously Brian Padgett. An Amended Class Action Complaint for Violations of the Federal Securities Laws was filed on April 19, 2002. The amended complaint seeks certification of a class of purchasers of Inforte Corp. stock, unspecified damages, interest, attorneys' and expert witness fees and other costs. The amended complaint alleges violations of federal securities laws in connection with our initial public offering (IPO) occurring in February 2000. The complaint does not allege any claims relating to any alleged misrepresentations or omissions with respect to our business. We believe that we and our officers have defenses to the claims and we intend to vigorously defend the lawsuit.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Submission of Matter to a Vote of Security Holders

Inforte held its Annual Meeting of Stockholders on April 25, 2002. For more information on the following proposals, refer to the company's proxy statement dated March 22, 2002, the relevant portions of which are incorporated herein by reference.

(1) The stockholders elected each of the two nominees to the Board of Directors for a three-year term:

DIRECTOR	FOR	AGAINST
Stephen C.P. Mack	9,026,562	1,815,574
Al Ries	10,819,821	22,315

(2) The stockholders ratified the appointment of Ernst & Young LLP as independent certified public accountants of the company:

For	10,797,517

Against	42,007
Abstain	2,612
Total	10,842,136

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

None

SIGNATURES

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

Inforte Corp.

By: /s/ NICK PADGETT

May 15, 2002

Nick Padgett,
Chief Financial Officer