INFORTE CORP
Form 10-Q
August 06, 2001

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 June 30, 2001

OR

[x] 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 June 30, 2001 was 12,871,133.

INFORTE CORP.

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INFORTE CORP.
BALANCE SHEETS

	DECEMBER 31, 2000	JUNE 30, 2001 (Unaudited)
ASSETS		
Current assets:		

Cash and cash equivalents	$ 42,391,880	$ 61,849,485
Short-term marketable securities	26,220,945	17,780,403
Accounts receivable	10,385,795	8,422,075
Allowance for doubtful accounts	(1,150,000)	(1,150,000)
Accounts receivable, net	9,235,795	7,272,075
Prepaid expenses and other current assets	1,905,936	2,289,957
Income taxes recoverable	1,545,769	-
Deferred income taxes	876,581	909,900
Total current assets	82,176,906	90,101,820
Computers, purchased software and property	4,535,670	4,683,404
Less accumulated depreciation and amortization	1,558,503	2,208,291
Computers, purchased software and property, net	2,977,167	2,475,113
Long-term marketable securities	14,383,998	5,620,450
Deferred income taxes	364,905	579,999
Total assets	$99,902,976	$98,777,382

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 582,591	$ 627,841
Income taxes payable	-	418,859
Accrued expenses	7,702,466	5,017,654
Deferred revenue	8,574,055	8,119,189
Total current liabilities	16,859,112	14,183,543
Stockholders' equity:		
Common stock, $0.001 par value authorized- 50,000,000 shares; issued and outstanding (net of treasury stock)- 12,702,926 as of December 31, 2000 12,871,133 as of June 30, 2001	12,703	12,871
Additional paid-in capital	74,192,205	75,000,002
Treasury stock (58,500 shares as of June 30, 2001)	-	(472,406)
Retained earnings	8,753,017	9,806,888
Accumulated other comprehensive income	85,939	246,484
Total stockholders' equity	83,043,864	84,593,839
Total liabilities and stockholders' equity	$99,902,976	$98,777,382

See notes to financial statements.

INFORTE CORP.
STATEMENTS OF OPERATIONS
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001
Revenues	$16,393,162	$12,537,832	$28,683,162	$26,588,985
Operating expenses:				
Project personnel and related expenses	7,123,510	7,378,815	12,532,282	14,775,639
Sales and marketing	2,228,910	2,129,456	3,790,851	3,988,047
Recruiting, retention and training	2,100,327	709,957	3,506,623	1,634,038
Management and administrative	2,880,835	3,098,569	5,324,378	6,546,022
Total operating expenses	14,333,582	13,316,797	25,154,134	26,943,746
Operating income	2,059,580	(778,965)	3,529,028	(354,761)
Interest income, net and other	900,979	898,435	1,241,480	1,911,766
Income before tax	2,960,559	119,470	4,770,508	1,557,005
Income tax expense	1,131,140	-	1,909,484	503,134
Net income	$ 1,829,419	$ 119,470	$ 2,861,024	$ 1,053,871
Earnings per share:				
-Basic	$0.15	$0.01	$0.25	$0.08
-Diluted	$0.13	$0.01	$0.22	$0.08
Weighted average common shares outstanding:				
- Basic	12,341,914	12,794,667	11,554,902	12,757,451
- Diluted	13,832,411	13,632,087	13,132,955	13,669,740

See notes to financial statements

4

INFORTE CORP.
STATEMENTS OF CASH FLOWS
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2000	2001	2000	2001

Cash flows from operating activities				
Net income	$ 1,829,419	$ 119,470	$ 2,861,024	$ 1,053,8
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	237,786	403,098	467,398	834,6
Non-cash compensation	-	-	-	75,0
Deferred income taxes	(193,990)	(77,542)	(230,383)	(248,4
Changes in operating assets and liabilities				
Accounts receivable	(923,585)	(737,946)	(4,815,881)	1,963,7
Prepaid expenses and other current assets	(173,261)	(118,698)	(733,960)	(384,0
Accounts payable	(1,048,200)	93,707	(323,734)	45,2
Income taxes	(277,270)	(35,592)	250,527	1,964,6
Accrued expenses and other	1,552,132	417,401	1,550,617	(2,684,8
Deferred revenue	2,307,747	802,879	5,517,511	(454,8
Net cash provided by operating activities	3,310,778	866,777	4,543,119	2,165,0
Cash flows from investing activities				
(Increase)/Decrease in marketable securities	(6,913,266)	16,669,952	(23,455,684)	17,322,3
Purchases of property and equipment	(399,364)	(86,059)	(895,937)	(287,0
Net cash provided by (used in) investing activities	(7,312,630)	16,583,893	(24,351,621)	17,035,3
Cash flows from financing activities				
Proceeds from issuance of common stock	-	-	66,860,251	
Proceeds from stock option and purchase plans	1,384,878	282,644	2,052,553	732,9
Purchase of treasury stock	-	-	-	(472,4
Net cash provided by financing activities	1,384,878	282,644	68,912,804	260,5
Effect of changes in exchange rates on cash	-	(6,806)	-	(3,2
Increase (decrease) in cash and cash equivalents	(2,616,974)	17,726,508	49,104,302	19,457,6
Cash and cash equivalents, beg. of period	55,513,303	44,122,977	3,792,027	42,391,8
Cash and cash equivalents, end of period	$52,896,329	$61,849,485	$52,896,329	$61,849,4

See notes to financial statements

5

Inforte Corp.

Notes to financial statements
(Unaudited)
June 30, 2001

(1) BASIS OF PRESENTATION

The accompanying unaudited 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 financial statements and should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2000 included in Inforte's annual report Form 10K (File No. 333-92325). The balance sheet at December 31, 2000 has been derived from the audited 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 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 and six month periods ended June 30, 2001 are not necessarily indicative of the results to be expected for the full fiscal year.

(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 then outstanding.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	2001	2000	2001
	(unaudited)		(unaudited)	
Basic weighted average shares	12,341,914	12,794,667	11,554,902	12,757,451
Effect of dilutive stock options	1,490,497	837,420	1,578,053	912,289
Diluted common and common equivalent shares	13,832,411	13,632,087	13,132,955	13,669,740

(3) COMPREHENSIVE INCOME

Statement of Financial Account 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 income was $229,755 and $1,214,416 for the three months and six-months ended June 30, 2001 and $1,839,571 and $2,868,656 for the three months and six-months ended June 30, 2000

(4) INCOME TAXES

Inforte's effective tax rate for the June 2001 quarter was 0.0% compared to 38.2% for the June 2000 quarter. The lower rate in 2001 is the result of operating income being near zero. Income tax expense in a quarter is the amount necessary to bring year-to-date income tax expense to the proper level. Year-to-date, Inforte's effective tax rate is 32.3%, compared to 40.0% for the six-month period ending June 30, 2000. The decrease in the effective tax rate was a result of a higher percentage of pretax income in 2001 resulting from interest income versus operating income. Generally, a significant portion of Inforte's marketable securities are tax advantaged and reduce the effective tax rate for interest, resulting in interest income having a lower tax rate than operating income. The quarterly tax rate for the remainder of 2001 may remain volatile if interest income continues to provide the majority of taxable income, and operating income continues to remain near zero.

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

You should read the following discussion in conjunction with our 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 10Q 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 to match our resources with the demand; (ii) attract and retain clients and satisfy our clients' expectations; (iii) recruit and retain qualified professionals; (iv) reliably forecast demand when information technology services spending 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 create long-term return on investment and sustainable advantages for clients by capitalizing on the convergence of business strategy and technology across the value chain. Inforte delivers strategic technology consulting, comprehensive demand chain management solutions, plus solutions that optimize supply chain integration. 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.

Since our inception in September 1993, we have followed an organic growth model with all growth generated internally rather than through mergers or acquisitions. As of June 30, 2001, we employed 406 people in our offices in Atlanta, Chicago, Dallas, London, Los Angeles, New York and San Francisco. Reflecting the importance we place on employee motivation and ownership, each of our employees is a stock or option holder.

The majority of our revenues are 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, a discovery phase or diagnostic 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 do not perform work under milestone-based billing schedules. We recognize revenues 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 revenues as we perform the services. We do not include in our revenues the reimbursable expenses we charge to our clients, on either fixed-price or time-and-material projects.

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

7

- the variability in market demand for information technology professional services;
- the growth rate of the U.S. economy and the impact that relative economic strength or weakness has on information technology services spending;
- the seasonal spending by our clients;
- 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 discretionary expenses within budget.

If revenues 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 revenues of certain items included in Inforte's statement of income:

	% of Revenue Three Months Ended June 30,		% of Revenue Six Months Ended June 30,	
	2000	2001	2000	2001
Revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Project personnel and related expenses	43.5	58.9	43.7	55.6

Sales and marketing	13.6	17.0	13.2	15.0
Recruiting, retention and training	12.8	5.7	12.2	6.1
Management and administrative	17.6	24.7	18.6	24.6
Total operating expenses	87.5	106.2	87.7	101.3
Operating income	12.6	-6.2	12.3	-1.3
Interest income, net and other	5.5	7.2	4.3	7.2
Pretax income	18.1	1.0	16.6	5.9
Income tax expense	6.9	0.0	6.6	1.9
Net income	11.2	1.0	10.0	4.0

Three months and six months ended June 30, 2000 and 2001

Revenues. Revenues decreased 24% to $12.5 million for the quarter ended June 30, 2001 from $16.4 million for quarter ended June 30, 2000. For the six months ended June 30, 2001, revenues decreased 7% to $26.6 million from $28.7 million for the six months ended June 30, 2000. Although we have historically experienced growth in our revenues, the market for strategic technology consulting services has decreased significantly this year due to the slower growth rate of the U.S. economy and the negative impact that heightened economic uncertainty has on information technology (IT) spending. For the quarter ended June 30, 2001, we had 35 significant clients with each of these clients contributing $1.4 million to revenue on average on an annualized basis. We had 46 significant clients during the quarter ended June 30, 2000, each contributing $1.4 million to revenue on average on an annualized basis. Sequentially, revenue declined 11% to $12.5 million in the June 2001 quarter from $14.1 million in the March 2001 quarter. The decline is not typical for our business, which has historically experienced stronger sequential growth rates in the first half of the year when most clients have access to new budget money. Given the current economic environment, we expect revenue for each quarter going forward in 2001 to equal $10.0 million.

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 increased 4% to $7.4 million for the quarter ended June 30, 2001, from $7.1 million for quarter ended June 30, 2000. For the six months ended June 30, 2001, these expenses increased 18% to $14.8 million from $12.5 million for the six months ended June 30, 2000. The increase relates to higher average consulting headcount during the quarter and six month period ending June 30, 2001, versus the prior year (even though ending consulting headcount declined versus one year ago) and higher average compensation versus the prior year, offset to some extent by lower non-reimbursable expenses. We employed 306 consultants on June 30, 2001, down from 321 one year earlier.

Project personnel and related expenses represented 58.9% of revenues for the quarter ended June 30, 2001, compared to 43.5% for the quarter ended June 30, 2000. The increase as a percentage of revenues was due to higher employee compensation and lower revenue in the June 2001 quarter. Similarly, project personnel and related expenses increased as a percentage of revenue to 55.6% for the six months ended June 30, 2001 from 43.7% in the prior year period. Annualized revenue per consultant was $156,000 in the June 2001 quarter, down from $233,000 during the June 2000 quarter, while costs per consultant increased. Annualized revenue per consultant was $161,000 for the six months ended June 30, 2001, down from $225,000 in the prior year period. These declines in revenue per consultant are primarily due to lower utilization of our project personnel. Utilization has remained below our 70%-80% target range for the last four quarters due to the slower economy.

Since client research indicates that information technology spending is likely to remain at minimal levels for at least the remainder of 2001, we recently offered a six-to-nine-month voluntary leave of absence program and a voluntary resignation program to employees in underutilized areas. Approximately 90 people are participating in the programs that begin in the month of July 2001. Individuals selecting the leave of absence program will receive compensation at 20%-25% of regular pay if they remain available to return to full-time service. Individuals choosing the voluntary resignation package will receive pay through the end of August. The programs are effective July 2001. Costs related to these programs incurred in the June 2001 quarter were $303,573. Salary costs for employees on leave of absence will be expensed as incurred during the length of the leave of absence.

Sales and marketing. Sales and marketing expenses consist primarily of compensation, benefits and travel costs for employees in the market development, practice development and client development groups and costs to execute marketing programs. Sales and marketing expenses decreased 4% to $2.1 million for the quarter ended June 2001 from $2.2 million in the same period in 2000. The spending decrease was due to lower discretionary expenses, offset partially by higher salary expense due to higher sales and marketing headcount. Sales and marketing expenses increased 5% to $4.0 million for the six months ended June 2001 from $3.8 million in the same period in 2000 due mainly to increased sales and marketing headcount. Sales and marketing expenses as a percentage of revenues increased to 17.0% for the quarter ended June 30, 2001 from 13.6% in the second quarter of 2000 due to lower revenue base. For the six months ended June 30, 2001, sales and marketing expenses as a percent of revenue increased from 13.2% in 2000 to 15.0% in 2001, also due to a lower revenue base. We expect our 2001 quarterly spending on sales and marketing to remain similar or increase as a percentage of revenue from the June 2001 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, including travel and labor costs. These expenses decreased by 66% to $0.7 million for the quarter ended June 30, 2001 from $2.1 million in the second quarter of 2000. As a percentage of revenue, these expenses declined to 5.7% in the June 2001 quarter versus 12.8% in the prior year period. For the six months ended June 30, 2001, recruiting, retention, and training expenses versus the prior year period decreased 53% to $1.6 million from $3.5 million and declined as a percentage of sales to 6.1% from 12.2%. These declines were due to a minimal hiring rate in 2001 versus peak hiring in 2000, reducing recruiting expenses and training expenses. During 2000, total employees rose from 257 on December 31, 1999 to 326 on March 31, 2000, and 408 on June 30, 2000. During 2001, total employees declined from 442 on December 31, 2000 to 428 on March 31, 2001, and 406 on June 30, 2001. We expect quarterly spending for the rest of 2001 on recruiting, retention and training to remain similar to the June 2001 quarter dollar level.

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 costs, and depreciation and amortization of capitalized computers, purchased software and property.

These expenses increased 7% to $3.1 million for the quarter ended June 30, 2001 from $2.9 million for the same period in 2000. For the six months ended June 30, 2001, these expenses increased 23% to $6.5 million from $5.3 million for the six months ended June 30, 2000. The increase in expenses were due to facilities expansions in June through October 2000, partially offset by lower spending on information technology, executive travel, and executive bonus compensation. As a percentage of revenue, management and administrative expenses were 24.7% in the quarter ended June 30, 2001, up from 17.6% for the quarter ended June 30, 2000. For the six months ended June 30, 2001, management and administrative expenses increased as a percent of revenue to 24.6% from 18.6% for the six months ended June 30, 2000. The increases as a percentage of revenue versus the prior year for both the quarter and year-to-date periods were due to increased spending and declining revenue.

Liquidity and capital resources. Cash and marketable securities increased from $83.0 million as of December 31, 2001 to $85.3 million at June 30, 2001. This increase is from cash provided by operating activities of $2.2 million, and from stock option and purchase plans of $0.7 million, offset by capital expenditures of $0.3 million and treasury stock purchases of $0.5 million.

Capital expenditures were primarily for computer equipment and software. We expect that capital expenditures will remain near this minimal level until overall customer demand in our industry begins to grow again.

As of June 30, 2001 our accounts receivable (less deferred revenue) equaled negative 6 days of sales outstanding. However, since December 31, 1997, days of sales outstanding have been as high as 41 days. We believe our current days of sales outstanding is unsustainably low, and we expect it will rise going forward. We do not, however, expect it to rise above normal industry levels of current days of sales outstanding and believe that we will have adequate cash flow to manage our working capital needs in the ordinary course of business.

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.

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, and in Inforte's earnings releases, actual results could differ materially from those projected in any forward-looking statements.

RISKS RELATED TO INFORTE

If we fail to identify and successfully transition to the latest and most advanced 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 and most advanced solutions, or if we identify but fail to successfully transition our business to these advanced solutions, 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 advanced solutions, they would generate lower fees.

Because our market changes rapidly, some of the most important challenges facing us are the need to:

- effectively use advanced technologies;
- continue to develop our strategic and technical expertise;
- influence and respond to emerging industry standards and other technological changes;
- 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.

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.

If we are unable to accurately forecast our quarterly revenue our profitability may be reduced.

Recently, the level of spending by clients and potential clients on information technology in the United States has 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 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.

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 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 significantly reduced, 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 June 30, 2001 have exercise prices of $8.56 to $71.81 with an average exercise price of $23.04. 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 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 has grown dramatically over the past several years. For example, our revenue has 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, we expect revenue in 2001 to decline compared to 2000. For 2001 and 2002, industry demand is highly dependent on the macroeconomic environment, which heavily influences our clients' level of IT services spending. The level of IT spending is subject to rapid positive and negative changes. If the level of IT services spending declines further, we may not be profitable or achieve positive cash flow from operations in 2001 or 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. Additionally, 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, Blue Martini, 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 revenues.

If we are unable to rapidly integrate third-party software, we may not 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 June 2001 quarter, our five largest clients accounted for 44% of revenue and our ten largest clients accounted for 64% of revenue. In 1999, our five largest clients accounted for 36% of revenue and our ten largest clients accounted for 55% of revenue. In 2000, our five largest clients accounted for 31% of revenue and our ten largest clients accounted for 46% of 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 2001 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 incur the expense of our services during the first half of the year. During 2001, we do not expect this normal seasonal growth pattern, and have adjusted our recruiting and spending plans accordingly. Our cautious expectations for 2001 are based upon slower U.S. economic growth that began in the second half of 2000 and business trends during the first six months of 2001. If we are unable to predict the cyclical client demand 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 the full-service consulting companies, including the 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 June 2001 quarter, our international revenues grew to over 10% of our total revenues for the first time in our business' history. As our international 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 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 Internet-based 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 utilization rates 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 2001 has averaged approximately 100,000 shares per day. On any particular day, Inforte's trading volume can be less than 20,000 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 could be subject to securities class action litigation similar to that which has been brought against companies following periods of volatility in the market price of their common stock. 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, control a vote of stockholders.

As of June 30, 2001 the executive officers and directors set forth below, own approximately 43.0% of the outstanding shares of our common stock and own individually the percentage set forth opposite their names:

- Philip S. Bligh 20.1%
- Stephen C.P. Mack 17.8%
- Nick Padgett 5.1%

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;

- 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 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
None

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

The Inforte Corporation held its Annual Meeting of Stockholders on April 25, 2001. For more information on the following proposals, refer to the company's proxy statement dated March 22, 2001, the relevant portions of which are incorporated herein by reference.

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

DIRECTOR	FOR	AGAINST
Ray C. Kurzweil	12,606,357	7,609
Michael E. Porter	12,606,355	7,611
Nick Padgett	10,983,354	1,630,612

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

For	12,611,040
Against	1,609
Abstain	1,317
Total	12,613,966

(3) The stockholders ratified the Amended and Restated 1997 Incentive Compensation Plan:

For	12,438,172
Against	169,718
Abstain	6,076

Total	12,613,966

Item 5. Other Information

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.

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

August 3, 2001

Nick Padgett,
Chief Financial Officer