SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2003

OR

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

For the transition period from ----- to -----

Commission file number 0-13163

Acxiom Corporation
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| DELAWARE<br>(State or Other Jurisdiction of Incorporation or Organization) | 71-0581897<br>(I.R.S. Employer Identification No.) |
| P.O. Box 8180, 1 Information Way, Little Rock, Arkansas<br>(Address of Principal Executive Offices) | 72203<br>(Zip Code) |

(501) 342-1000
(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).

Yes X No

The number of shares of Common Stock, $ 0.10 par value per share, outstanding as of October 31, 2003 was 84,876,786.

ACXIOM CORPORATION AND SUBSIDIARIES
INDEX
REPORT ON FORM 10-Q
September 30, 2003





PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

| | September 30, 2003 | March 31, 2003 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,649 | $ 5,491 |
| Trade accounts receivable, net | 185,402 | 189,704 |
| Deferred income taxes | 46,056 | 46,056 |
| Refundable income taxes | - | 2,576 |
| Other current assets | 40,276 | 45,288 |
| Total current assets | 275,383 | 289,115 |
| Property and equipment, net of accumulated depreciation and amortization | 220,371 | 208,306 |
| Software, net of accumulated amortization | 64,711 | 63,095 |
| Goodwill | 223,765 | 221,184 |
| Purchased software licenses, net of accumulated amortization | 158,975 | 161,432 |
| Unbilled and notes receivable, excluding current portions | 14,093 | 20,249 |
| Deferred costs, net of accumulated amortization | 118,360 | 108,444 |
| Other assets, net | 27,060 | 21,421 |
| | $ 1,102,718 | $ 1,093,246 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Current installments of long-term debt | 47,816 | 29,491 |
| Trade accounts payable | 30,726 | 28,760 |
| Accrued expenses: | | |
| Restructuring | 30 | 584 |
| Payroll | 14,841 | 14,234 |
| Other | 39,059 | 38,689 |
| Deferred revenue | 52,811 | 59,907 |
| Income taxes | 8,399 | - |
| Total current liabilities | 193,682 | 171,665 |
| Long-term obligations: | | |
| Long-term debt and capital leases, net of current installments | 252,723 | 233,843 |
| Software and data licenses, net of current installments | 54,398 | 55,834 |
| | 307,121 | 289,677 |
| Deferred income taxes | 62,606 | 69,348 |
| Commitments and contingencies (note 12) | | |
| Stockholders' equity: | | |
| Common stock | 9,068 | 9,015 |
| Additional paid-in capital | 339,971 | 333,715 |
| Retained earnings | 276,039 | 253,558 |
| Accumulated other comprehensive loss | (651) | (2,911) |
| Treasury stock, at cost | (85,118) | (30,821) |
| Total stockholders' equity | 539,309 | 562,556 |
| | $ 1,102,718 | $ 1,093,246 |

See accompanying notes to condensed consolidated financial statements.



ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in thousands, except per share amounts)

| | For the Three Months Ended September 30, 2003 | 2002 |
|---|---|---|
| Revenue | $ 241,095 | $ 235,396 |
| Operating costs and expenses: | | |
| Salaries and benefits | 80,522 | 75,050 |
| Computer, communications and other equipment | 64,106 | 63,829 |
| Data costs | 32,224 | 29,787 |
| Other operating costs and expenses | 41,527 | 43,197 |
| Gains, losses and nonrecurring items, net | - | (4,102) |
| Total operating costs and expenses | 218,379 | 207,761 |

| | | |
|---|---|---|
| Income from operations | 22,716 | 27,635 |
| Other income (expense): | | |
| Interest expense | (4,889) | (5,068) |
| Other, net | 121 | 1,551 |
| | (4,768) | (3,517) |
| Earnings before income taxes | 17,948 | 24,118 |
| Income taxes | 6,730 | 8,592 |
| Net earnings | $ 11,218 | $ 15,526 |
| Earnings per share: | | |
| Basic | $ 0.13 | $ 0.18 |
| Diluted | $ 0.13 | $ 0.17 |

See accompanying notes to condensed consolidated financial statements.



ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)
(Dollars in thousands, except per share amounts)

| | For the Six Months Ended September 30, 2003 | 2002 |
|---|---|---|
| Revenue | $ 477,777 | $ 460,802 |
| Operating costs and expenses: | | |
| Salaries and benefits | 169,269 | 149,842 |
| Computer, communications and other equipment | 130,392 | 126,855 |
| Data costs | 62,471 | 58,731 |
| Other operating costs and expenses | 82,703 | 80,610 |
| Gains, losses and nonrecurring items, net | (1,008) | (4,559) |
| Total operating costs and expenses | 443,827 | 411,479 |
| Income from operations | 33,950 | 49,323 |
| Other income (expense): | | |
| Interest expense | (9,654) | (10,395) |
| Other, net | 886 | 1,542 |
| | (8,768) | (8,853) |
| Earnings before income taxes | 25,182 | 40,470 |
| Income taxes | 2,701 | 14,479 |
| Net earnings | $ 22,481 | $ 25,991 |
| Earnings per share: | | |
| Basic | $ 0.26 | $ 0.29 |
| Diluted | $ 0.25 | $ 0.28 |

See accompanying notes to condensed consolidated financial statements.



ACXIOM CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

| | For the Six Months Ended September 30, 2003 | 2002 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $ 22,481 | $ 25,991 |
| Adjustments to reconcile net earnings to net cash provided by operations: | | |
| Depreciation and amortization | 71,036 | 56,259 |
| Gain on disposal or impairment of assets, net | (1,008) | (51) |
| Deferred income taxes | (6,742) | 7,552 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 4,810 | (6,907) |
| Other assets | 8,826 | 45,966 |
| Accounts payable and other liabilities | (815) | (13,752) |

| | | |
|---|---|---|
| Restructuring and impairment costs | (554) | (1,369) |
| Net cash provided by operating activities | 98,034 | 113,689 |
| Cash flows from investing activities: | | |
| Proceeds received from the disposition of operations | 7,684 | 259 |
| Proceeds received from the disposition of assets | 698 | 200 |
| Payments received from investments | 1,360 | - |
| Capitalized software development costs | (13,631) | (17,610) |
| Capital expenditures | (4,624) | (4,916) |
| Deferral of costs | (10,032) | (7,348) |
| Investments in joint ventures and other investments | (5,000) | (1,052) |
| Proceeds from sale and leaseback transaction | - | 7,729 |
| Net cash paid in acquisitions | - | (8,272) |
| Net cash used by investing activities | (23,545) | (31,010) |
| Cash flows from financing activities: | | |
| Proceeds from debt | 82,473 | 82,516 |
| Payments of debt | (110,888) | (156,700) |
| Sale of common stock | 6,709 | 12,141 |
| Acquisition of treasury stock | (54,697) | - |
| Net cash used by financing activities | (76,403) | (62,043) |
| Effect of exchange rate changes on cash | 72 | 80 |
| Net decrease in cash and cash equivalents | (1,842) | 20,716 |
| Cash and cash equivalents at beginning of period | 5,491 | 5,676 |
| Cash and cash equivalents at end of period | $ 3,649 | $ 26,392 |
| Supplemental cash flow information: | | |
| Cash paid (received) during the period for: | | |
| Interest | $ 10,302 | $ 13,453 |
| Income taxes | (1,556) | (40,281) |
| Noncash investing and financing activities: | | |
| Acquisition of land in exchange for debt | 2,698 | - |
| Acquisition of data under long-term obligation | 18,340 | - |
| Note received in exchange for sale of operations | - | 736 |
| Issuance of warrants | - | 1,317 |
| Enterprise software licenses acquired under software obligation | 9,212 | 2,828 |
| Acquisition of property and equipment under capital lease | 31,334 | 2,310 |
| Construction of asset under construction loan | 2,610 | - |

See accompanying notes to condensed consolidated financial statements.



ACXIOM CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

These condensed consolidated financial statements have been prepared by Acxiom Corporation ("Registrant", "Acxiom" or "the Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC" or "the Commission"). In the opinion of the Registrant's management all adjustments necessary for a fair presentation of the results for the periods included have been made and the disclosures are adequate to make the information presented not misleading. All such adjustments are of a normal recurring nature. Certain note information has been omitted because it has not changed significantly from that reflected in notes 1 through 20 of the Notes to Consolidated Financial Statements filed as a part of Item 14 of the Registrant's annual report on Form 10-K for the fiscal year ended March 31, 2003 ("2003 Annual Report"), as filed with the Commission on June 9, 2003. This report and the accompanying condensed consolidated financial statements should be read in connection with the 2003 Annual Report. The financial information contained in this report is not necessarily indicative of the results to be expected for any other period or for the full fiscal year ending March 31, 2004.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. Actual results could differ from those estimates. Certain of the accounting policies used in the preparation of these condensed consolidated financial statements are complex and require management to make judgments and/or significant estimates regarding amounts reported or disclosed in these financial statements. Additionally, the application of certain of these accounting policies is governed by complex accounting principles and interpretations thereof. A discussion of the Company's significant accounting principles and the application thereof is included in note 1 and in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, to the Company's 2003 Annual Report.

During the quarter ended June 30, 2003, in conjunction with an amendment of one of its purchased software license agreements, the Company evaluated the remaining useful lives of certain of its purchased software licenses. Purchased software licenses include both prepaid software and capitalized future software obligations for which the liability is included in long-term obligations. Costs of purchased software licenses are amortized using a units-of-production basis over the estimated economic life of the license, generally not to exceed ten years. As a result of this review, the estimated remaining useful life of one of these licenses was extended from eight years to ten years and the estimated remaining useful life of another license was extended from four years to eight years. At the same time, the Company also adjusted its units-of-production estimates for future years. As a result of these changes, amortization expense for these two licenses for the six months ended September 30, 2003 was reduced from what it would have been without these changes. The effect of the amendment, the changes in useful lives, and the changes in estimated units-of-production in the six months ended September 30, 2003 was to increase earnings before income taxes by $2.6 million, increase net earnings by $1.6 million, increase basic earnings per share by $0.02, and increase diluted earnings per share by $0.01.

Effective January 1, 2001, the Company changed its method of accounting for certain transactions, retroactive to April 1, 2000, in accordance with SEC Staff Accounting Bulletin 101 ("SAB 101"), "Revenue Recognition in Financial Statements." For the quarters ended September 30, 2003 and 2002, the Company recognized approximately $1.4 million and $3.9 million, respectively, in revenue that was included in the SAB 101 cumulative effect adjustment. For the six months ended September 30, 2003 and 2002, the Company recognized approximately $3.4 million and $8.1 million, respectively, in revenue that was included in the SAB 101 cumulative effect adjustment.

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on net earnings as previously reported.



2. RESTRUCTURING, IMPAIRMENT AND OTHER CHARGES

Restructuring and Impairment Charges
On June 25, 2001, the Company announced a restructuring plan ("Restructuring Plan") for significant cost-reduction efforts, including workforce reductions, the sale and leaseback of a significant amount of its computer equipment, and certain other restructuring activities, asset impairments and other adjustments and accruals totaling $45.3 million. The charges recorded by the Company included a loss on the sale-leaseback transaction of $31.2 million; $8.3 million in associate-related reserves; $3.6 million for lease and contract termination costs and $2.2 million for abandoned or impaired assets and transaction costs.

Montgomery Wards Bankruptcy
During the fourth quarter of the year ended March 31, 2001, the Company recorded a charge totaling $34.6 million relating to the bankruptcy filing of Montgomery Ward ("Wards"), a significant customer of the Information Technology ("IT") Management segment, for the write-down of impaired assets and for certain ongoing obligations that have no future benefit to the Company. As of June 30, 2001, the Company was no longer obligated to provide services to Wards.

The following table shows the balances related to the Restructuring Plan and to Wards that were included in the restructuring and impairment accruals as of March 31, 2003 and the changes in those balances during the six months ended September 30, 2003 (dollars in thousands):

| | March 31, 2003 | Payments | September 30, 2003 |
|---|---|---|---|
| Associate-related | $ 16 | $ (16) | $ - |
| Ongoing contract costs | 314 | (284) | 30 |
| Other accruals | 254 | (254) | - |
| | $ 584 | $(554) | $ 30 |

The remaining accruals will be paid out during the current fiscal year. During the fiscal year ended March 31, 2003 the Company received a payment from the Wards bankruptcy trustee in the amount of $0.5 million, which was recorded in gains, losses and nonrecurring items, net. Any future additional recoveries from the bankruptcy will also be recorded in gains, losses and nonrecurring items, net.

3. ACQUISITIONS AND INVESTMENTS

Effective November 26, 2002, the Company acquired certain assets and assumed certain liabilities of Toplander Corporation ("Toplander"), a data compiler for online marketing efforts. Management believes this acquisition will enable Acxiom to significantly increase the number of database records used for online marketing efforts and will provide additional sources of data collection. The acquisition price consisted of cash paid to the sellers of $5.6 million and contingent consideration that included up to $2.4 million of additional cash, shares of the Company's common stock with a fair value of up to $2.0 million, and warrants to purchase shares of the Company's common stock with a fair value of up to $2.0 million for a total aggregate purchase price, including contingent consideration, of up to $12.0 million. During the quarter ended September 30, 2003 the purchase price contingencies were resolved. As a result, the Company is not required to pay the additional cash consideration or issue the shares of common stock, but will be required to issue the warrants. The seller is disputing the Company's calculation of the number of warrants required to meet the $2 million warrant obligation. The Company and the seller are preparing to go to arbitration to settle this issue, as well as certain other disagreements arising from the purchase transaction. The Company has recorded the $2 million warrant liability in other accrued expenses on the accompanying condensed consolidated balance sheet as of September 30, 2003. Management expects the ultimate settlement of the disputed matters will not have a material impact on the consolidated financial statements. The results of operations of Toplander are included in the Company's consolidated results from the date of



acquisition. The pro forma effect of this acquisition is not material to the Company's consolidated results for any of the periods presented.

Effective August 12, 2002, the Company acquired certain assets and assumed certain liabilities of an employment screening business owned by Trans Union, LLC ("Trans Union"), a related party. This employment screening business was incorporated as Acxiom Information Security Systems, Inc. ("AISS") and offers a range of services including criminal and civil records search, education and reference verification, and other verification services for its customers. Management believes AISS will provide the Company with additional products and services and will support the Company's initiatives in the screening, identification and security areas. The aggregate purchase price of $34.8 million consisted of cash of $7.5 million paid at closing, a note of $2.5 million paid in October 2002, additional cash of $0.2 million paid in October 2002 as a result of purchase price adjustments, 664,562 shares of common stock valued at $10.5 million and warrants to purchase 1,272,024 shares of common stock, at an exercise price of $16.32, valued at $14.1 million. The results of operations of AISS are included in the Company's consolidated results from the date of acquisition. The pro forma effect of this acquisition is not material to the Company's consolidated results for any of the periods presented.

Effective June 1, 2002, the Company entered into an agreement with Publishing & Broadcasting Limited ("PBL") whereby Acxiom purchased PBL's 50% ownership interest in an Australian joint venture ("Australian JV") for cash of $0.8 million (net of cash acquired) and a note payable of $1.4 million, such that Acxiom now owns 100% of the Australian operation. Additionally, the purchase agreement provides that Acxiom may be required to pay PBL additional consideration, based on a percentage of the Australian operation's results through March 31, 2007, and also provides PBL the option to repurchase between 25% and 49% of the Australian JV subsequent to March 31, 2007, at an option price specified in the purchase agreement. To date, the Company has not been required to pay any additional consideration. The results of operations of the Australian business are included in the Company's condensed consolidated financial statements beginning June 1, 2002. Prior to that time, the Company accounted for the Australian JV as an equity method investment. The pro forma effect of this acquisition is not material to the Company's consolidated results for any of the periods presented.



The following table shows the allocation of the Australian JV, AISS, and Toplander purchase prices to assets acquired and liabilities assumed (dollars in thousands):

| | Australian JV | AISS | Toplander |
|---|---|---|---|
| Assets acquired: | | | |
| Cash | $ 592 | $ - | $ - |
| Goodwill | 6,995 | 32,438 | 6,512 |
| Other current and noncurrent assets | 2,575 | 3,513 | 1,334 |
| | 10,162 | 35,951 | 7,846 |
| Accounts payable and accrued expenses assumed | 1,077 | 1,096 | 246 |
| Net assets acquired | 9,085 | 34,855 | 7,600 |
| Less: | | | |
| Cash acquired | 592 | - | - |
| Common stock issued | - | 10,525 | - |
| Warrants for the purchase of common stock | - | 14,097 | 2,000 |
| Previous investment in Australian JV | 6,357 | - | - |
| Note payable | 1,364 | 2,500 | - |
| Net cash paid | $ 772 | $ 7,733 | $ 5,600 |

During the quarter ended June 30, 2003, the Company made an investment of $5.0 million in Battleaxe, LLC, a limited liability company formed for the purpose of owning and managing real property in Illinois. Under the terms of the operating agreement, the Company's ownership investment in this entity will be returned through monthly payments over the next four years, including interest at 5%, with a final payment of $2.4 million due May 2007. The balance of the ownership investment of $4.8 million is included in other assets, net in the accompanying condensed consolidated balance sheet as of September 30, 2003. As an inducement for the Company to enter into this investment, the other investors released the Company from a contingent liability under which the Company was potentially liable under certain leases that had been assumed by other parties. The total amount of the future lease payments for which the Company was previously contingently liable was $6.8 million as of March 31, 2003.

4. DIVESTITURES

On June 27, 2003, the Company sold its Los Angeles outsourcing data center operation for $6.7 million in cash. In connection with the sale, the Company accrued $1.3 million in other accrued expenses on the accompanying condensed consolidated balance sheet for its estimated liability on a building lease that was not assumed by the buyer and wrote off $1.2 million of goodwill. The Company recorded a gain on the disposal of $1.0 million, net of the lease accrual and goodwill write-off, which is included in gains, losses and nonrecurring items, net for the six months ended September 30, 2003. This operation accounted for approximately $20 million in revenue in fiscal 2003, with no material impact on net earnings.

In addition to the above sale, the Company has also received a payment of $1.0 million on its note receivable from the sale of the DMI business unit sold in a prior fiscal year. The balance of the DMI note receivable, net of credits the Company has agreed to provide to DMI in future periods, is $8.8 million payable over the next five years.



During the year ended March 31, 2002, the Company sold three of its business operations, including a minor portion of its United Kingdom operations located in Spain and Portugal. During the quarter ended June 30, 2002, the Company sold the remaining portion of its assets located in Spain, which primarily consisted of tax loss carryforwards. Effective July 31, 2002, the Company sold its print shop business located in Chatsworth, California. Gross proceeds from the sales of these operations were $16.6 million, consisting of cash of $6.8 million and notes receivable of $9.8 million. At September 30, 2003 and March 31, 2003, notes receivable relating to these transactions of $5.0 million and $5.3 million, respectively, are included in the accompanying condensed consolidated financial statements. The Company recorded a gain associated with the disposition in Spain of $0.5 million during the six months ended September 30, 2002, including the write-off of $0.1 million of goodwill.

5. OTHER CURRENT AND NONCURRENT ASSETS

Unbilled and notes receivable are from the sales of software, data licenses, equipment sales and from the sale of divested operations (see note 4), net of the current portions of such receivables. The term of the unbilled and notes receivable is generally three years or less. Other current assets include the current portion of the unbilled and notes receivable of $15.0 million and $21.9 million at September 30, 2003 and March 31, 2003, respectively. The remainder of other current assets consists of prepaid expenses, non-trade receivables and other miscellaneous assets.

Other noncurrent assets consist of the following (dollars in thousands):

| | September 30, 2003 | March 31, 2003 |
|---|---|---|
| Investments in joint ventures and other investments, net of unrealized gain or loss on available-for-sale marketable securities | $ 17,305 | $ 13,463 |
| Other, net | 9,755 | 7,958 |
| | $ 27,060 | $ 21,421 |

6. GOODWILL

The changes in the carrying amount of goodwill, by business segment, for the six months ended September 30, 2003, are as follows (dollars in thousands):

| | Services | Data and Software Products | IT Management | Total |
|---|---|---|---|---|
| Balances at March 31, 2003 | $ 139,981 | $6,045 | $ 75,158 | $ 221,184 |
| Divestitures | - | - | (1,234) | (1,234) |

| | | | | |
|---|---|---|---|---|
| Contingent consideration (note 3) | - | 2,000 | - | 2,000 |
| Foreign currency translation adjustment | 1,815 | - | - | 1,815 |
| Balances at September 30, 2003 | $ 141,796 | $8,045 | $ 73,924 | $ 223,765 |



7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following (dollars in thousands):

| | September 30, 2003 | March 31, 2003 |
|---|---|---|
| Convertible subordinated notes due 2009; interest at 3.75% | $ 175,000 | $ 175,000 |
| Revolving credit agreement | 36,881 | 28,799 |
| Capital leases on land, buildings and equipment payable in monthly payments of principal plus interest at approximately 8%; remaining terms up to fifteen years | 54,099 | 32,753 |
| Other debt and long-term liabilities | 13,942 | 10,278 |
| Total long-term debt and capital leases | 279,922 | 246,830 |
| Less current installments | 27,199 | 12,987 |
| Long-term debt and capital leases, excluding current installments | $ 252,723 | $ 233,843 |
| | | |
| Software license liabilities payable over terms up to seven years; effective interest rates at approximately 6% | $ 63,284 | $ 72,338 |
| Long-term data license agreement, due over two years; interest at 6% | 11,731 | - |
| Total license liabilities | 75,015 | 72,338 |
| Less current installments | 20,617 | 16,504 |
| License liabilities, excluding current installments | $ 54,398 | $ 55,834 |

The Company maintains a revolving credit facility that provides for aggregate borrowings and letters of credit of up to $150 million. Any borrowings under this facility will bear interest at LIBOR plus 1.50%, or at an alternative base rate or at the Federal funds rate plus 2.00%, depending upon the type of borrowing, are secured by substantially all of the Company's assets and are due July 2006. At September 30, 2003, the interest rate under this credit facility was approximately 2.7% per annum. Outstanding letters of credit at September 30, 2003 and March 31, 2003, were $8.8 million and $10.8 million, respectively.

Under the terms of some of the above borrowings, the Company is required to maintain certain tangible net worth levels, debt-to-cash flow and debt service coverage ratios, among other restrictions. At September 30, 2003, the Company was in compliance with these covenants and restrictions. Accordingly, the Company has classified all portions of its debt obligations due after September 30, 2004 as long-term in the accompanying condensed consolidated financial statements.

During the first quarter of the current fiscal year, the Company completed a long-term data license agreement with Trans Union, a related party. The related data asset of $17.2 million, net of amortization, is recorded in deferred costs on the accompanying condensed consolidated balance sheet. This data will be used in certain of the Company's products.



8. STOCKHOLDERS' EQUITY

Below is the calculation and reconciliation of the numerator and denominator of basic and diluted earnings (loss) per share (in thousands, except per share amounts):

| | For the quarter ended September 30, | | For the six months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Basic earnings per share: | | | | |
| Numerator - net earnings | $ 11,218 | $15,526 | $22,481 | $25,991 |
| Denominator - Weighted-average shares outstanding | 85,236 | 88,481 | 85,839 | 88,131 |
| Basic earnings per share | $ 0.13 | $ 0.18 | $ 0.26 | $ 0.29 |
| Diluted earnings per share: | | | | |
| Numerator: | | | | |
| Net earnings | $ 11,218 | $15,526 | $22,481 | $25,991 |
| Interest expense on convertible debt (net of tax benefit) | 1,026 | 1,050 | 2,051 | 2,100 |
| | $ 12,244 | $16,576 | $24,532 | $28,091 |

| | | | | |
|---|---|---|---|---|
| Denominator: | | | | |
| Weighted-average shares outstanding | 85,236 | 88,481 | 85,839 | 88,131 |
| Dilutive effect of common stock options and warrants, as computed under the treasury stock method | 1,937 | 2,354 | 1,770 | 2,411 |
| Dilutive effect of convertible debt, as computed under the if-converted method | 9,589 | 9,589 | 9,589 | 9,589 |
| | 96,762 | 100,424 | 97,198 | 100,131 |
| Diluted earnings per share | $ 0.13 | $ 0.17 | $ 0.25 | $ 0.28 |

At September 30, 2003, the Company had options and warrants outstanding providing for the purchase of approximately 21.8 million shares of its common stock. Options and warrants to purchase shares of common stock that were outstanding during the periods reported, but were not included in the computation of diluted earnings per share because the exercise price was greater than the average market price of the common shares are shown below (in thousands, except per share amounts):



| | For the quarter ended September 30, | | For the six months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Excluded number of shares under options and warrants | 12,716 | 11,426 | 13,162 | 10,495 |
| Range of exercise price | $16.35 - 62.06 | $16.45 - 62.06 | $14.82 - 62.06 | $16.45 - 62.06 |

The Company applies the provisions of Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation cost has been recognized by the Company in the accompanying condensed consolidated statements of earnings for any of the fixed stock options granted. Had compensation cost for options granted been determined on the basis of the fair value of the awards at the date of grant, consistent with the methodology prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123, as amended by SFAS No. 148, the Company's net earnings would have been reduced to the following pro forma amounts for the periods indicated (dollars in thousands, except per share amounts):

| | For the quarter ended September 30, | | For the six months ended September 30, | |
|---|---|---|---|---|
| | 2003 | 2002 | 2003 | 2002 |
| Net earnings, as reported | $ 11,218 | $ 15,526 | $ 22,481 | $ 25,991 |
| Less: stock-based employee compensation expense under fair value based method, net of income tax benefit | 3,229 | 2,584 | 6,205 | 5,308 |
| Pro forma net earnings | $ 7,989 | $ 12,942 | $ 16,276 | $ 20,683 |
| Earnings per share: | | | | |
| Basic - as reported | $ 0.13 | $ 0.18 | $ 0.26 | $ 0.29 |
| Basic - pro forma | $ 0.09 | $ 0.15 | $ 0.19 | $ 0.23 |
| Diluted - as reported | $ 0.13 | $ 0.17 | $ 0.25 | $ 0.28 |
| Diluted - pro forma | $ 0.09 | $ 0.14 | $ 0.19 | $ 0.23 |

Pro forma net earnings reflect only options granted after fiscal 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the pro forma net earnings amounts presented above because compensation cost is reflected over the options' vesting period of up to nine years and compensation cost for options granted prior to April 1, 1995 is not considered.

The per share weighted average fair value of stock options granted during the six months ended September 30, 2003 was $10.11 on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: dividend yield of 0%; risk-free interest rate of 4.45%; expected option life of ten years; and expected volatility of 51%.

9. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade accounts receivable are presented net of allowances for doubtful accounts, returns, and credits of $3.1 million and $6.7 million, respectively, at September 30, 2003 and at March 31, 2003. The decrease in the allowance



account was due to the write-off of accounts receivable which had previously been included in the allowance account. The reduction in the allowance account had no impact on the statement of earnings.

10. SEGMENT INFORMATION

The following tables present information by business segment (dollars in thousands):

| | For the quarter ended September 30, 2003 | 2002 | For the six months ended September 30, 2003 | 2002 |
|---|---|---|---|---|
| Revenue: | | | | |
| Services | $ 184,068 | $ 178,893 | $ 359,760 | $ 348,262 |
| Data and Software Products | 46,755 | 45,059 | 87,910 | 83,431 |
| IT Management | 60,967 | 56,907 | 122,912 | 113,368 |
| Intercompany eliminations | (50,695) | (45,463) | (92,805) | (84,259) |
| | $ 241,095 | $ 235,396 | $ 477,777 | $ 460,802 |
| Income (loss) from operations: | | | | |
| Services | $ 19,019 | $ 25,042 | $ 28,787 | $ 46,004 |
| Data and Software Products | 10,341 | 8,636 | 13,948 | 11,306 |
| IT Management | 4,028 | 2,386 | 5,552 | 3,458 |
| Intercompany eliminations | (10,551) | (8,429) | (14,460) | (11,454) |
| Corporate and other | (121) | - | 123 | 9 |
| | $ 22,716 | $ 27,635 | $ 33,950 | $ 49,323 |

11. COMPREHENSIVE INCOME (LOSS)

The balance of accumulated other comprehensive loss, which consists of foreign currency translation adjustments and unrealized gains and losses, net of reclassification adjustments and income tax benefit, on marketable securities classified as available-for-sale, was $0.7 million and $2.9 million at September 30, 2003 and March 31, 2003, respectively. Total comprehensive income was $11.2 million and $14.8 million, respectively, for the quarters ended September 30, 2003 and 2002 and $24.7 million and $27.8 million, respectively, for the six-month periods ended September 30, 2003 and 2002.

12. COMMITMENTS AND CONTINGENCIES

Refer to Part II, Item 1 for a description of legal proceedings.

The Company leases data processing equipment, software, office furniture and equipment, land and office space under noncancellable operating leases. Additionally, the Company has entered into synthetic operating leases for computer equipment, furniture and an aircraft ("Leased Assets"), which provide the Company with a more cost-effective way to acquire equipment than alternative financing arrangements. These synthetic operating lease facilities are accounted for as operating leases under generally accepted accounting principles and are treated as capital leases for income tax reporting purposes. Initial lease terms under the synthetic computer equipment and furniture facility range from two to six years, with the Company having the option at expiration of the initial lease to return the equipment, purchase the equipment at a fixed price, or extend the term of the lease. The lease term of the aircraft expires in January 2011, with the Company having the option to purchase the aircraft, renew the lease for an additional twelve months, or return the aircraft to the lessor. Monthly payments under these synthetic lease facilities are approximately $2.3 million. At September 30, 2003, the total amount drawn under these synthetic operating lease facilities was $187.7 million and the remaining capacity for additional funding (for computer equipment and furniture only) was $65.8 million. The Company has a remaining commitment under these synthetic operating lease facilities of $32.5 million over the next eight years. In the event the Company elects



to return the Leased Assets, the Company has guaranteed a portion of the residual value to the lessors. Assuming the Company elects to return the Leased Assets to the lessors at its earliest opportunity under the synthetic lease arrangements and assuming the Leased Assets have no significant residual value to the lessors, the maximum potential amount of future payments the Company could be required to make under these residual value guarantees was $16.7 million at September 30, 2003.

The Company also has an aircraft leased from a business controlled by an officer of the Company. Should the Company elect early termination rights under the lease or not extend the lease beyond the initial term and the lessor sells the aircraft, the Company has guaranteed a residual value of 70% of the then outstanding indebtedness of the lessor, or $4.0 million at September 30, 2003.

In connection with certain of the Company's facilities, the Company has entered into 50/50 joint ventures with local real estate developers. In each case, the Company is guaranteeing portions of the loans for the buildings. In addition, in connection with the disposal of certain assets, the Company has guaranteed loans for the buyers of the assets. These guarantees were made by the Company primarily to facilitate favorable financing terms for those third parties. Should the third parties default on this indebtedness, the Company would be required to perform under its guarantee. Substantially all of the third-party indebtedness is collateralized by various pieces of real property. At September 30, 2003, the Company's maximum potential of future payments under these guarantees of third-party indebtedness was $5.6 million.

13. RECENT DEVELOPMENTS

In early August 2003 management determined that Acxiom had experienced unlawful security breaches of its file transfer protocol ("FTP") server. Unauthorized access to certain files occurred as a result of information being exchanged between Acxiom and a number of clients via the FTP server. Acxiom was among several companies whose security was breached. Law enforcement authorities have arrested and charged a former employee of one of Acxiom's clients and are investigating another company. Acxiom is fully cooperating with the investigation, which involves multiple law enforcement agencies.

Only FTP files on a server located outside of the Acxiom firewall were compromised, and not all FTP files nor all clients were affected. No internal systems or databases were accessed, and there was no breach that penetrated the Acxiom security firewall. Based on the facts known to management, the Company does not believe that there is any risk of harm to individuals, and the Company does not expect any material adverse effect from this incident.

Acxiom has a longstanding commitment to systems and network security. The Company undergoes internal security audits on a regular basis, and many clients perform audits on the Company's systems as well. The Company has begun an additional comprehensive review of its systems and procedures to guard against similar incidents in the future. Based on this incident, management is implementing improvements to its systems and procedures.



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

Introduction and Executive Summary

Acxiom Corporation ("Acxiom" or "the Company") integrates data, services and technology to create and deliver customer and information management solutions for many of the largest, most respected companies in the world. The core components of Acxiom's innovative solutions are customer data integration technology, data, database services, information technology ("IT") outsourcing, consulting and analytics, and privacy leadership. Founded in 1969, Acxiom is headquartered in Little Rock, Arkansas, with locations throughout the United States ("U.S.") and in the United Kingdom ("U.K."), France, Australia and Japan.

The Company manages its operations through three operating segments: Services, Data and Software Products, and IT Management. The Services segment, the Company's largest segment, provides data warehousing, list processing, data, IT management and consulting services to large corporations in a number of vertical industries. The Data and Software Products segment provides data content and software primarily in support of the direct marketing activities of clients in the Services segment. The IT Management segment reflects outsourcing services primarily in the areas of data center, client/server and network management.

Highlights of the most recently completed fiscal quarter are identified below.

* Revenue increased 2% over the previous year to $241.1 million;
* Diluted earnings per share were $0.13, compared to $0.17 per share in the same quarter a year ago. The year-ago quarter included a credit of $4.1 million recorded in gains, losses and nonrecurring items;
* The Company reported operating cash flow for the six months ended September 30, 2003 of $98.0 million and free cash flow (as defined under "Capital Resources and Liquidity" below) of $70.4 million;
* New contracts signed during the quarter are expected to contribute annual revenue of $16 million and contract renewals are expected to generate $6 million in annual revenue;
* The Company purchased $20 million of treasury stock (1.3 million shares) during the quarter.

The highlights above are intended to identify to the reader some of the more significant events and transactions of the Company during the quarter ended September 30, 2003. However, these highlights are not intended to be a full discussion of the Company's results for the quarter or the six-month period. These highlights should be read in conjunction with the following discussion of Results of Operations and Capital Resources and Liquidity and with the Company's condensed consolidated financial statements and footnotes included in Item 1 of this report.



Results of Operations

A summary of selected financial information for the quarters and six months ended September 30, 2003 and 2002 is presented below (dollars in millions, except per share amounts):

| | For the quarter ended September 30, | | | For the six months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Revenue | $ 241.1 | $ 235.4 | + 2% | $ 477.8 | $ 460.8 | + 4% |
| Operating costs and expenses | 218.4 | 207.8 | + 5 | 443.8 | 411.5 | + 8 |
| Income from operations | 22.7 | 27.6 | -18 | 34.0 | 49.3 | -31 |
| Diluted earnings per share | 0.13 | 0.17 | -24 | 0.25 | 0.28 | -11 |

Revenues

The table below shows the Company's revenue by business segment for the quarters and for the six months ended September 30, 2003 and 2002 (dollars in millions).

| | For the quarter ended September 30, | | | For the six months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Services | $ 184.1 | $ 178.9 | + 3% | $ 359.8 | $ 348.3 | + 3% |
| Data and Software Products | 46.8 | 45.1 | + 4 | 87.9 | 83.4 | + 5 |
| IT Management | 60.9 | 56.9 | + 7 | 122.9 | 113.4 | + 8 |
| Intercompany eliminations | (50.7) | (45.5) | + 12 | (92.8) | (84.3) | + 10 |
| | $ 241.1 | $ 235.4 | + 2% | $ 477.8 | $ 460.8 | + 4% |

For the quarter ended September 30, 2003, the Company's revenue was $241.1 million, compared to revenue of $235.4 million in the same quarter in the prior year, reflecting an increase of $5.7 million, or 2%. New contracts signed during the current quarter are expected to contribute annual revenue of $16 million and contract renewals are expected to generate $6 million in annual revenue. The Company's revenue continues to be impacted by a less than robust economic environment. However, the Company's committed new business pipeline continues to grow. The new business pipeline represents new business for which the Company has been selected, but has not yet finalized the related contract.

For the six months ended September 30, 2003, the Company's revenue was $477.8 million, compared to revenue of $460.8 million in the same period for the prior year, reflecting an increase of $17.0 million, or 4%.

Approximately 80% of the Company's consolidated revenue in both fiscal 2003 and 2004 is from clients who have long-term contracts (defined as contracts with initial terms of two years or more) with the Company. These revenues include all revenue from clients for which there is a long-term contract that covers some portion of that client's revenue. However, this does not mean that all revenue from such contracts is necessarily "fixed" or guaranteed, as portions of revenue from clients who have long-term contracts, as well as substantially all of the revenue from clients that are not under long-term contract, is variable or project-related.

Services segment revenue for the quarter increased $5.2 million, or 3%, over the prior year. This increase in revenue reflects an increase in revenue from clients in the financial services industry of approximately $1.7 million (2%), an increase from clients in the insurance industry of approximately $1.6 million (6%), increases



from media and publishing clients of $2.8 million (73%) and an increase of $2.4 million in revenue from the AISS acquisition completed in the prior year, partially offset by decreases in other areas. For the six months ended September 30, 2003, Services segment revenue increased $11.5 million compared to the prior year, due primarily to increases in the financial services industry of $11.2 million (7%) and the increase from the AISS acquisition of $7.0 million, offset by decreases in other areas. The increase in financial services industry revenue includes equipment sales of $1.6 million for the quarter and $6.1 million for the six-month period. Revenue growth was impacted by the security incident discussed below under "Recent Developments." While the Company is unable to accurately quantify the impact of this incident on its revenue, management believes that the distraction of dealing with the incident created a temporary delay in several new contracts and projects. Management estimates the impact on quarterly revenue of these delays was less than $5 million.

Data and Software Products segment revenue during the quarter increased $1.7 million over the same quarter in the prior year and increased $4.5 million for the six-month period. Both increases reflect weakness in InfoBase Telesource and e-products, offset by growth in software products and InfoBase Analytic and Enhancement products.

IT Management segment revenue increased $4.1 million over the same quarter a year ago, and increased $9.5 million for the year-to-date period. The IT Management increase in the quarter included $2.5 million in revenue which was also counted as revenue by the Services segment related to new contracts with clients in the media and publishing industry. The remaining increase is primarily attributable to an increase in revenue under the data center management agreement with Trans Union which was amended effective October 1, 2002 to encompass Trans Union's client/server, network, and communications infrastructure. These revenue gains were partially offset by the decrease of $4.2 million for the quarter and $4.9 million for the six months from the disposal of the Company's Los Angeles outsourcing data center operation.

Certain revenue, including all data and software product revenue and certain IT management revenue, is reported both as revenue in the segment which owns the client relationship (primarily the Services segment) as well as the segment which owns the product development, maintenance, sales support, etc. These revenues, which are eliminated in consolidation, increased $5.2 million in the current quarter and $8.5 million for the six-month period.



Operating Expenses

The following table presents operating expenses for the quarters and the six months ended September 30, 2003 and 2002 (dollars in millions):

| | For the quarter ended September 30, | | | For the six months ended September 30, | | |
|---|---|---|---|---|---|---|
| | 2003 | 2002 | % Change | 2003 | 2002 | % Change |
| Salaries and benefits | $ 80.5 | $ 75.1 | + 7% | $ 169.2 | $ 149.8 | + 13% |
| Computer, communications and other equipment | 64.1 | 63.8 | + 0 | 130.4 | 126.9 | + 3 |
| Data costs | 32.3 | 29.8 | + 8 | 62.5 | 58.8 | + 6 |
| Other operating costs and expenses | 41.5 | 43.2 | - 4 | 82.7 | 80.6 | + 3 |
| Gains, losses and non-recurring items, net | --- | (4.1) | | (1.0) | (4.6) | |
| | $ 218.4 | $ 207.8 | + 5% | $ 443.8 | $ 411.5 | + 8% |

Salaries and benefits for the Company increased $5.5 million compared to the same quarter in the prior year. The increase reflects the impact of pay reinstatements in the prior year and pay increases effective in the current quarter, which aggregate approximately $3.5 million, as well as decreased capitalization of salaries related to software development and customer setup activities. No incentive compensation was accrued in the quarter and no previously accrued incentive compensation from the first quarter was reversed. Quarterly and annual payments of the incentive compensation are determined based on achievement of financial targets, including meeting earnings per share goals. The Company currently forecasts approximately $10 million in incentive compensation for the entire fiscal year, including the $5 million previously accrued during the first quarter. For the six months ended September 30, 2003, salaries and benefits increased $19.4 million compared to the same period in the prior year. The increase is due to the incentive accrual recorded in the first quarter, decreased capitalization of salaries related to software development and customer setup activities, and the pay reinstatements and pay increases referred to above. Total headcount as of September 30, 2003 was 5014, compared to 5057 at September 30, 2002.

Computer, communications and other equipment costs increased $0.3 million in the current quarter as compared to the same quarter a year ago. For the six months ended September 30, 2003, the increase was $3.5 million. The Company incurred significant software and capital expenditures in prior years to build the AbiliTec infrastructure, which are expected to fully amortize over the next three years. As discussed in note 1 to the accompanying condensed consolidated financial statements, during the first quarter the Company extended the remaining estimated useful lives of two large purchased software licenses, amended one software license agreement, and changed its units-of-production estimates for future years. The result of these changes was to reduce amortization expense for the six months ended September 30, 2003 by $2.6 million from what it would have been without these changes.

Data costs for the quarter increased $2.4 million over the comparable quarter in the prior year. For the six months ended September 30, 2003, these costs increased $3.7 million. Data costs are primarily comprised of the cost of data to support the Allstate Insurance Company ("Allstate") contract, as well as fixed and royalty-based data that are used in the Company's InfoBase products. The increases for both the current quarter and the six-month period are primarily due to higher costs related to the Allstate contract.

Other operating costs and expenses decreased $1.7 million in the current quarter as compared to a year ago, while for the six-month period other operating costs and expenses increased $2.1 million. In both the current quarter and year-to-date period, pass-through expenses related to postage on customer mailings were lower, but this was offset in the year-to-date period by higher cost of sales on equipment.



For the six months ended September 30, 2003, gains, losses and nonrecurring items consisted of the gain on disposal of the Company's Los Angeles outsourcing data center operation of $1.0 million recorded in the first quarter. Gains, losses and nonrecurring items for the quarter ended September 30, 2002 was a gain of $4.1 million due to the reversal of an accrual for "over-attainment" incentives. For the six months ended September 30, 2002, gains, losses and nonrecurring items also included a gain of $0.5 million from the sale of the Company's Spanish operations.

As a result of the factors noted above, income from operations declined from $27.6 million in the quarter ended September 30, 2002 to $22.7 million in the quarter ended September 30, 2003, a decrease of 18%. For the six months ended September 30, 2003 and 2002, income from operations was $34.0 million and $49.3 million, respectively. Income from operations for the Services segment was $28.8 million in the current year-to-date period compared to $46.0 million in the comparable period in the prior year. Most of the expense variances discussed above are also applicable to the Services segment.

Other Income (Expense), Income Taxes and Other Items

Interest expense of $4.9 million for the quarter and $9.7 million for the six-month period is lower than the previous year due to lower interest rates and lower debt levels. The Company's weighted-average interest rate on long-term debt was 4.7% at September 30, 2003 and 4.8% at March 31, 2003.

Other, net for the current fiscal quarter primarily consists of interest income on notes receivable of $0.5 million, offset by equity pickup and other losses. Other, net in the prior year included $1.0 million of interest income, with the remainder consisting primarily of equity pickup of earnings on joint ventures. Other, net for the six-month period includes interest income on notes receivable of $1.1 million, again partially offset by other items. In the comparable period for the prior year, other, net included $2.4 million of interest income on notes receivable, with the remainder consisting primarily of equity pickup of losses on joint ventures.

The Company recorded an income tax benefit of $6.7 million in the quarter ended June 30, 2003 as a result of the completion of a tax return audit by the Internal Revenue Service. The Company had previously accrued deferred taxes related to certain deductions and tax positions taken on its return for the 1999 fiscal year in connection with its May & Speh acquisition. Excluding the deferred tax benefit, the Company's tax rate for both the quarter and the six months ended September 30, 2003 was 37.5%. The Company's estimated tax rate for the full fiscal year is also 37.5%, excluding the deferred tax adjustment mentioned above and any additional adjustments related to previous years deferred tax liabilities.

The Company is regularly audited by federal and state tax authorities, which, from time to time, results in proposed assessments and/or adjustments to certain of the Company's tax positions. The Company has established a deferred tax liability to cover its potential exposure resulting from certain tax deductions and exclusions taken by the Company in recent years for which no specific or clear guidance is included in the Internal Revenue Code and the possibility that the Company's position with respect to these deductions and/or exclusions could be challenged and disallowed by tax authorities.

Capital Resources and Liquidity

Working Capital and Cash Flow

Working capital at September 30, 2003 totaled $81.7 million compared to $117.5 million at March 31, 2003. This decline is primarily the result of a decline in accounts receivable and an increase in accounts payable and the current portion of long-term obligations. Cash provided by operating activities was $98.0 million in the six months ended September 30, 2003, as compared to $113.7 million for the same period in the prior year. Net changes in operating assets and liabilities increased operating cash flow by $12.3 million in the current period and $23.9 million in the prior year. The prior year included approximately $40 million of refunds of federal income taxes received in June 2002. Depreciation and amortization of $71.0 million in the six months ended September 30, 2003 increased 26% over the same period in the prior year.



Accounts receivable days sales outstanding ("DSO") was 71 days at both September 30, 2003 and March 31, 2003 and is calculated as follows (dollars in thousands):

| | September 30, 2003 | March 31, 2003 |
|---|---|---|
| Numerator - trade accounts receivable, net | $ 185,402 | $ 189,704 |
| Denominator: | | |
| Quarter revenue | 241,095 | 239,459 |
| Number of days in quarter | 92 | 90 |
| Average daily revenue | $ 2,621 | $ 2,661 |
| Days sales outstanding | 71 | 71 |

Investing activities used $23.5 million in the six months ended September 30, 2003, compared to $31.0 million in the same period in the prior year. Investing activities in the current period included capitalized software development costs of $13.6 million, compared to $17.6 million in the prior year. Capital expenditures were $4.6 million in the current period, compared to $4.9 million in the prior year. Cost deferrals were $10.0 million in the current period, compared to $7.3 million in the prior year. Investing activities in the current year also included $5.0 million related to the Company's investment in Battleaxe, LLC, a limited liability company formed for the purpose of owning and managing real property in Illinois. Under the terms of the operating agreement, the Company's ownership investment in this entity will be returned through monthly payments over the next four years, including interest at 5%, with a final payment of $2.4 million due in May 2007. As an inducement for the Company to enter into this investment, the other investors released the Company from a contingent liability under which the Company was potentially liable under certain leases that had been assumed by other parties. The total amount of the future lease payments that the Company was contingently liable for was $6.8 million as of March 31, 2003. Investing activities also included the receipt of $7.7 million of proceeds from the disposition of operations, which included $6.7 million related to the sale of the Company's Los Angeles outsourcing data center operation and $1.0 million in collections on a note from the sale of the DMI operation in a prior year. Investing activities for the current period also included $1.4 million in payments received from investments, including $1.2 million from the Company's health care joint venture, which has been liquidated.

With respect to certain of its investments in joint ventures and other companies, Acxiom has provided cash advances to fund losses and cash flow deficits. Although the Company has no commitment to continue to do so, it expects to continue funding such losses and deficits until such time as these investments become profitable. Acxiom may, at its discretion, discontinue providing financing to these investments during future periods. In the event that Acxiom ceases to provide funding and these investments have not achieved profitable operations, the Company may be required to record an impairment charge up to the amount of the carrying value of these investments ($17.3 million at September 30, 2003). In the event that declines in the value of its investments occur and continue, the Company may be required to record temporary and/or "other than temporary" impairment charges of its investments.



The Company has generated free cash flows, as shown below (in thousands):

| | For the six months ended September 30, 2003 | 2002 |
|---|---|---|
| Cash provided by operating activities | $ 98,034 | $113,689 |
| Proceeds from the disposition of assets | 698 | 200 |
| Capitalized software development costs | (13,631) | (17,610) |
| Capital expenditures | (4,624) | (4,916) |
| Deferral of costs | (10,032) | (7,348) |

| | | |
|---|---|---|
| Proceeds from sale and leaseback | --- | 7,729 |
| Free cash flow | $ 70,445 | $ 91,744 |

Free cash flow is a non-generally accepted accounting principle ("GAAP") financial measure. A non-GAAP financial measure is defined as a numerical measure of the Company's financial performance, financial position or cash flow that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in the Company's consolidated financial statements. Free cash flow is defined as cash provided by operating activities less cash used by investing activities excluding the impact of investments in joint ventures and other business alliances and cash paid and/or received in acquisitions and dispositions. Free cash flow, as defined by the Company, may not be comparable to similarly titled measures reported by other companies. Management of the Company has included free cash flow in this filing because although free cash flow does not represent the amount of money available for the Company's discretionary spending since certain obligations of the Company must be funded out of free cash flow, management nevertheless believes that it provides investors with a useful alternative measure of liquidity by allowing an assessment of the amount of cash available for general corporate and strategic purposes, including debt payments, after funding operating activities and capital expenditures, capitalized software expenses and deferred costs. The above table reconciles free cash flow to cash provided by operating activities, the nearest comparable GAAP measure.

Financing activities in the current fiscal period used $76.4 million, primarily as a result of the purchase of 3.8 million shares of common stock for an aggregate purchase price of $54.7 million. The remainder of the financing activities relate to net repayments of debt and the sale of common stock through stock options and the employee stock purchase plan.

The Company has also incurred long-term obligations through non-cash investing and financing activities during the six months ended September 30, 2003 of $2.7 million for the acquisition of land, $18.3 million for the acquisition of data, $9.2 million for the acquisition of enterprise software, $31.3 million for the acquisition of equipment under capital leases to service customers, and $2.6 million to construct a building under a construction loan. Using capital leases and long-term license arrangements allows the Company to better match cash outflows with the resulting customer cash inflows.

The Company intends to use its future free cash flow to repay debt, to buy back shares of its common stock (when accretive to earnings per share), for possible future acquisitions and for potential payments of dividends. The Company has never paid cash dividends on its common stock, but may do so in the future.



Credit and Debt Facilities

The Company had available credit lines of $150 million of which $36.9 million was outstanding at September 30, 2003 compared to $28.8 million outstanding at March 31, 2003. The Company's debt-to-capital ratio, as calculated below, was 36% at September 30, 2003 compared to 34% at March 31, 2003 (dollars in thousands).

| | September 30, 2003 | March 31, 2003 |
|---|---|---|
| Numerator - long-term obligations | $ 307,121 | $ 289,677 |
| Denominator: | | |
| Long-term obligations | 307,121 | 289,677 |
| Stockholders' equity | 539,309 | 562,556 |
| | $ 846,430 | $ 852,233 |
| Debt-to-capital ratio | 36% | 34 % |

The increase is largely due to increases in long-term obligations as a result of the increase in the revolving credit and additional long-term obligations entered into during the current year, coupled with the decrease in stockholders' equity as a result of treasury stock purchases. Included in long-term obligations for both periods presented above are the Company's 3.75% convertible notes ("3.75% Notes") in the amount of $175 million, as discussed below. The conversion price for the 3.75% Notes is $18.25 per share. If the Company's common stock price increases above the conversion price, the 3.75% Notes may be converted to equity.

Off-Balance Sheet Items

The Company has entered into synthetic operating lease facilities for computer equipment, furniture and an aircraft ("Leased Assets"). These synthetic operating lease facilities are accounted for as operating leases under GAAP and are treated as capital leases for income tax reporting purposes. These synthetic lease arrangements provide the Company with a more cost-effective way to acquire equipment than alternative financing arrangements and better match inflows of cash from client contracts to outflows related to lease payments. Lease terms under the computer equipment and furniture facility range from two to six years, with the Company having the option at expiration of the initial term to return, or purchase at a fixed price, or extend or renew the term of the leased equipment. In the event the Company elects to return the Leased Assets, the Company has guaranteed a portion of the residual value to the lessors. Assuming the Company elects to return the Leased Assets to the lessors at its earliest opportunity under the synthetic lease arrangements and assuming the Leased Assets have no significant residual value to the lessors, the maximum potential amount of future payments the Company could be required to make under these residual value guarantees was $16.7 million at September 30, 2003. As of September 30, 2003, the total amount drawn under these synthetic operating lease facilities was $187.7 million, and the remaining capacity for additional funding (for computer equipment and furniture only) was $65.8 million.

The Company has recently begun construction of a new office building and data center in Phoenix, Arizona. Total construction costs of this facility are expected to be approximately $15 million to $20 million and construction is expected to be completed in fiscal 2005. The Company also plans to begin construction on an additional data center in Little Rock, Arkansas later this fiscal year, and it is expected to be completed in late fiscal 2005. Total construction cost of this facility is expected to be $10 million to $15 million.

In connection with certain of the Company's other buildings and facilities, the Company has entered into 50/50 joint ventures with local real estate developers. In each case, the Company is guaranteeing portions of the loans for the



buildings. In addition, in connection with the disposal of certain assets, the Company has guaranteed loans for the buyers of the assets. Substantially all of the third-party indebtedness for which the Company has provided guarantees is collateralized by various pieces of real property. The aggregate amount of the guarantees at September 30, 2003 was $5.6 million.

The Company was previously contingently obligated under certain leases that have been assumed by other parties. The total future lease payments for which the Company was contingently liable was $6.8 million at March 31, 2003. During the six months ended September 30, 2003, in conjunction with its investment in Battleaxe, LLC as discussed above, the Company was released from this contingent liability.

At both September 30, 2003 and March 31, 2003, the Company had accrued $0.3 million related to the potential obligations under all of its various guarantees.

Outstanding letters of credit, which reduce the borrowing capacity under the Company's revolving credit facility, were $8.8 million at September 30, 2003 and $10.8 million at March 31, 2003.



Contractual Commitments
The following table presents Acxiom's contractual cash obligations and purchase commitments at September 30, 2003 (dollars in thousands). The column for 2004 represents the six months ending March 31, 2004. All other columns represent fiscal years ending March 31.

| | For the years ending March 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | 2008 | There-after | Total |
| Capital lease obligations | $13,079 | $15,676 | $8,625 | $2,512 | $1,054 | $13,153 | $54,099 |
| Software and data license liabilities | 7,733 | 18,265 | 16,497 | 11,932 | 13,656 | 6,932 | 75,015 |
| Other long-term debt | 148 | 12,335 | 104 | 36,985 | 104 | 176,147 | 225,823 |
| Total long-term obligations | 20,960 | 46,276 | 25,226 | 51,429 | 14,814 | 196,232 | 354,937 |
| Synthetic aircraft lease | 448 | 896 | 896 | 896 | 896 | 2,463 | 6,495 |
| Synthetic equipment and furniture leases | 13,401 | 9,062 | 2,729 | 607 | 253 | - | 26,052 |
| Total synthetic operating leases | 13,849 | 9,958 | 3,625 | 1,503 | 1,149 | 2,463 | 32,547 |
| Equipment operating leases | 11,812 | 17,714 | 8,312 | 1,982 | - | - | 39,820 |
| Building operating leases | 3,934 | 6,144 | 5,663 | 5,674 | 5,174 | 56,621 | 83,210 |
| Partnerships building leases | 1,068 | 2,122 | 2,123 | 2,134 | 2,144 | 2,202 | 11,793 |
| Related party aircraft lease | 451 | 902 | 902 | 376 | - | - | 2,631 |
| Total operating lease payments | 31,114 | 36,840 | 20,625 | 11,669 | 8,467 | 61,286 | 170,001 |
| Operating software license obligations | 4,303 | 9,236 | 4,932 | 3,515 | 3,515 | 7,030 | 32,531 |
| Total operating lease and software license obligations | 35,417 | 46,076 | 25,557 | 15,184 | 11,982 | 68,316 | 202,532 |
| Total contractual cash obligations | $56,377 | $92,352 | $50,783 | $66,613 | $26,796 | $264,548 | $557,469 |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Purchase commitment on synthetic aircraft lease | - | - | - | - | - | 4,398 | 4,398 |
| Purchase commitments on synthetic equipment and furniture leases | 16,116 | 4,473 | 3,627 | 464 | 1,626 | - | 26,306 |
| Other purchase commitments | 40,921 | 24,945 | 19,328 | 18,381 | 12,665 | - | 116,240 |
| Total purchase commitments | $57,037 | $29,418 | $22,955 | $18,845 | $14,291 | $ 4,398 | $146,944 |

The synthetic lease term for the aircraft expires in January 2011, with the Company having the option at expiration to either purchase the aircraft at a fixed price, renew the lease for an additional twelve-month period (with a nominal purchase price paid at the expiration of the renewal period), or return the aircraft in the condition and manner required by the lease. The purchase commitment on the synthetic aircraft lease assumes the lease terminates and is not renewed and the Company elects to purchase the aircraft.

The related party aircraft lease relates to an aircraft leased from a business controlled by an officer. The Company has also agreed to pay the difference, if any, between the sales price of the aircraft and 70% of the related loan balance (approximately $4.0 million at September 30, 2003) should the Company elect to exercise its early termination rights or not extend the lease beyond its initial term and the lessor sells the equipment as a result.

The purchase commitments on the synthetic equipment and furniture leases assume the leases terminate and are not renewed, and the Company elects to purchase the assets. The other purchase commitments include contractual commitments for the purchase of data and open purchase orders for equipment, paper, office supplies, construction and other items. Other purchase commitments in some cases will be satisfied by entering into future operating leases, capital leases, or other financing arrangements.

The following table shows contingencies or guarantees under which the Company could be required, in certain circumstances, to make cash payments as of September 30, 2003 (dollars in thousands):

| | |
|---|---|
| Residual value guarantee on the synthetic computer equipment and furniture lease | $ 14,939 |
| Residual value guarantee on synthetic aircraft lease | 1,759 |
| Residual value guarantee on related party aircraft lease | 4,019 |
| Guarantees on certain partnership and other loans | 5,557 |
| Outstanding letters of credit | 8,790 |

The total amount of the partnerships and other loans, of which the Company guarantees the portion noted above, are $13.7 million.

While the Company does not have any other material contractual commitments for capital expenditures, minimum levels of investments in facilities and computer equipment continue to be necessary to support the growth of the business. It should also be noted that the Company has spent considerable capital over previous years building the AbiliTec infrastructure. It is the Company's current intention generally to lease any new required equipment to better match



cash outflows with customer inflows. In some cases, the Company also sells software and hardware to clients. In fiscal 2002, the Company changed its policy of billing for these sales under extended payment terms or notes receivable, which were collectible generally over three years, to up-front payment by the client. Therefore, the up-front expenditures of cash, which were previously repaid over the life of the agreement, are now generally being matched by up-front cash received from the client. In addition, new outsourcing or facilities management contracts frequently require substantial up-front capital expenditures to acquire or replace existing assets. Management believes that the Company's existing available debt and cash flow from operations will be sufficient to meet the Company's working capital and capital expenditure requirements for the foreseeable future. The Company also evaluates acquisitions from time to time, which may require up-front payments of cash. Depending on the size of the acquisition it may be necessary to raise additional capital. If additional capital becomes necessary as a result of any material variance of operating results from projections or from potential future acquisitions, the Company would first use available borrowing capacity under its revolving credit agreement, followed by the issuance of debt or equity securities. However, no assurance can be given that the Company would be able to obtain funding through the issuance of debt or equity securities at terms favorable to the Company, or that such funding would be available.

For a description of certain risks that could have an impact on results of operations or financial condition, including liquidity and capital resources, see the "Risk Factors" contained in Part I, Item 1. Business, of the Company's annual report on Form 10-K for the fiscal year ended March 31, 2003.

Acquisitions and Divestitures

Effective November 26, 2002, the Company acquired certain assets and assumed certain liabilities of Toplander Corporation ("Toplander"), a data compiler for online marketing efforts. Management believes this acquisition will enable Acxiom to significantly increase the number of database records used for online marketing efforts and will provide additional sources of data collection. The acquisition price consisted of cash paid to the sellers of $5.6 million and contingent consideration that included up to $2.4 million of additional cash, shares of the Company's common stock with a fair value of up to $2.0 million, and warrants to purchase shares of the Company's common stock with a fair value of up to $2.0 million for a total aggregate purchase price, including contingent consideration, of up to $12.0 million. During the quarter ended September 30, 2003, the purchase price contingencies were resolved. As a result, the Company is not required to pay the additional cash consideration or issue the shares of common stock, but will be required to issue the warrants. The seller is disputing the number of warrants required to meet the $2 million warrant obligation. The Company and the seller are preparing to go to arbitration to settle this issue, as well as certain other disagreements arising from the purchase transaction. The Company has recorded the $2 million warrant liability in other accrued expenses. Management expects the ultimate settlement of the disputed matters will not have a material impact on the consolidated financial statements.

Effective August 12, 2002, the Company acquired certain assets and assumed certain liabilities of an employment screening business owned by Trans Union, LLC ("Trans Union"), a related party. This employment screening business was incorporated as Acxiom Information Security Systems, Inc. ("AISS") and offers a range of services including criminal and civil records search, education and reference verification, and other verification services for its clients. Management believes AISS will provide the Company with additional products and services and will support the Company's initiatives in the screening, identification and security areas. The aggregate purchase price of $34.8 million consisted of cash of $7.5 million paid at closing, a note of $2.5 million paid in October 2002, additional cash of $0.2 million paid in October 2002 as a result of purchase price adjustments, 664,562 shares of common stock valued at $10.5 million and warrants to purchase 1,272,024 shares of common stock, at an exercise price of $16.32, valued at $14.1 million.

Recent Developments

In early August 2003 management determined that Acxiom had experienced unlawful security breaches of its file transfer protocol ("FTP") server. Unauthorized access to certain files occurred as a result of information being exchanged between Acxiom and a number of clients via the FTP server. Acxiom was among several companies whose security was breached. Law enforcement authorities have arrested and charged a former employee of one of Acxiom's clients and are investigating another company. Acxiom is fully cooperating with the investigation, which involves multiple law enforcement agencies.



Only FTP files on a server located outside of the Acxiom firewall were compromised, and not all FTP files nor all clients were affected. No internal systems or databases were accessed, and there was no breach that penetrated the Acxiom security firewall. Based on the facts known to management, the Company does not believe that there is any risk of harm to individuals, and the Company does not expect any material adverse effect from this incident.

Acxiom has a longstanding commitment to systems and network security. The Company undergoes internal security audits on a regular basis, and many clients perform audits on the Company's systems as well. The Company has begun an additional comprehensive review of its systems and procedures to guard against similar incidents in the future. Based on this incident, management is implementing improvements to its systems and procedures.



Other Information

In accordance with a data center management agreement dated July 27, 1992 between Acxiom and Trans Union, Acxiom (through its subsidiary, Acxiom CDC, Inc.) acquired all of Trans Union's interest in its Chicago data center and agreed to provide Trans Union with various data center management services. In a 1992 letter agreement, Acxiom agreed to use its best efforts to cause one person designated by Trans Union to be elected to Acxiom's board of directors. Trans Union designated its CEO and President, Harry C. Gambill, who was appointed to fill a vacancy on the board in November 1992 and was elected at the 1993 annual meeting of stockholders to serve a three-year term. He was elected to serve additional three-year terms at the 1996, 1999 and 2002 annual stockholders meetings. Under a second letter agreement, executed in 1994 in connection with an amendment to the 1992 agreement, which continued the then-current term through 2002, Acxiom agreed to use its best efforts to cause two people designated by Trans Union to be elected to Acxiom's board of directors. While these undertakings by Acxiom are in effect until the end of the current term of the agreement, which expires in August 2005, Acxiom has been notified that Trans Union does not presently intend to designate another individual to serve as director. Acxiom and Trans Union amended the data center management agreement on October 1, 2002, expanding its scope to encompass Trans Union's client/server, network and communications infrastructure. This amendment runs concurrent with the current term of the data center management agreement. In addition to this agreement, the Company has other contracts with Trans Union related to data, software and other services. Acxiom recorded revenue from Trans Union of $17.5 million and $13.2 million for the quarters ended September 30, 2003 and 2002, respectively, and $34.8 million and $ 25.8 million for the six months ended September 30, 2003 and 2002, respectively.

Effective April 1, 2002, Acxiom and Trans Union entered into a marketing joint venture that serves as a sales agent for both parties for certain existing mutual clients. The purpose of the joint venture is to provide these joint clients with leading-edge solutions that leverage the strengths of both parties. Currently serving a small number of financial service clients, the joint venture will market substantially all of the products and services currently offered by Acxiom and Trans Union, as well as any new products and services that may be agreed upon. If either party determines that its participation in the joint venture is economically disadvantageous, it may terminate the arrangement after certain negotiation procedures specified in the agreement have occurred. The net results of operations from this joint venture have not been material.

During the six months ended September 30, 2003, the Company acquired from Trans Union data to be used in certain of the Company's products. The $18.3 million cost, of which $6.7 million has been paid, is included in deferred costs on the accompanying condensed consolidated balance sheet.

See Item 13 of the Company's annual report on Form 10-K for additional information on certain relationships and related transactions.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States. These accounting principles require management to make certain judgments and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Note 1 to the consolidated financial statements filed as a part of the Company's annual report on Form 10-K includes a summary of significant accounting policies used in the preparation of Acxiom's consolidated financial statements. In addition, the Management's Discussion and Analysis filed as a part of the Company's annual report on Form 10-K contains a discussion of policies which management has identified as the most critical because they require management's use of complex and/or significant judgments. The following paragraphs are intended to update that discussion only for the critical accounting policies or estimates that have materially changed since the date of the Company's last annual report.

Valuation of Long-Lived Assets and Goodwill - Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted cash flows expected to result from the use and eventual disposition of the asset.



In cases where cash flows cannot be associated with individual assets, assets are grouped together in order to associate cash flows with the asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill represents the excess of acquisition costs over the fair values of net assets acquired in business combinations treated as purchase transactions. Under the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is not amortized, but is reviewed annually for impairment under a two-part test. In the event that part one of the impairment test indicates potential impairment of goodwill, performance of part two of the impairment test is required. Any impairment that results from the completion of the two-part test is recorded as a charge to operations during the period in which the impairment test is completed. The Company performs its annual goodwill impairment evaluation as of the beginning of its fiscal year. The Company has completed part one of an annual, two-part impairment analysis of its goodwill and has determined that no impairment of its goodwill existed as of April 1, 2003. Accordingly, step two of the goodwill impairment test was not required for fiscal 2004. Changes in circumstances may require the Company to perform impairment testing on a more frequent basis. No assurance can be given by the Company that additional impairment tests will not require an impairment charge during future periods should circumstances indicate that the Company's goodwill balances are impaired.

In completing step one of the test and making the assessment that no potential impairment of the Company's goodwill existed, management has made a number of estimates and assumptions. In particular, the growth and discount rates used by management in determining the fair value of each of the Company's reporting units through a discounted cash flow analysis significantly affect the outcome of the impairment test, as well as numerous other factors. In performing step one of the impairment analysis, management has used growth rates ranging from 5 percent up to 15 percent and used a discount rate of 12 percent, representing an approximation of the Company's weighted-average cost of capital, which resulted in a sizable excess of fair value over the net assets of each of the Company's reporting units. Assuming the same growth rates, a discount rate of greater than 17 percent would be necessary to indicate potential impairment of at least a portion of the Company's goodwill balances, resulting in the need to proceed to step two of the impairment test. Assuming the 12 percent discount rate but assuming no growth would also not indicate impairment. Additionally, the Company has determined that its reporting units should be aggregated up to reportable segments for use in analyzing its goodwill and assessing any potential impairment thereof, on the basis of similar economic characteristics in accordance with the guidance in SFAS No. 131 and SFAS No. 142. However, should a determination be made that such aggregation of some or all of the Company's reporting units is not appropriate, the results of step one of the goodwill impairment test might indicate that potential impairment does exist, requiring the Company to proceed to step two of the test and possibly recording an impairment of its goodwill.



New Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 established standards for how entities classify and measure in their statement of financial position certain financial instruments with characteristics of both liabilities and equity. The provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first fiscal interim period beginning after June 15, 2003 and reported as a cumulative effect adjustment. The Company adopted this statement, as required, effective July 1, 2003, resulting in no material impact on its financial position, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities." Under the provisions of FIN 46, the underlying assets, liabilities and results of activities of a large number of variable interest entities ("VIE's") would be required to be consolidated into the financial statements of a primary beneficiary. All enterprises with variable interests in VIE's created after January 31, 2003 shall apply the provisions of FIN 46 immediately. Entities with a variable interest in VIE's created before February 1, 2003 shall apply the provisions of FIN 46 no later than the beginning of the first interim or annual reporting period beginning after June 15, 2003. The Company was required to apply the provisions of FIN 46 to its consolidated financial statements beginning July 1, 2003. Since the Company has terminated its real estate synthetic lease arrangement, there was no material impact from applying the provisions of FIN 46.

On November 21, 2002, the EITF reached a final consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Elements." EITF 00-21 provides guidance on (a) how arrangement consideration should be measured, (b) whether the arrangement should be divided into separate units of accounting, and (c) how the arrangement consideration should be allocated among the separate units of accounting. EITF 00-21 also requires disclosure of the accounting policy for recognition of revenue from multiple-deliverable arrangements and the description and nature of such arrangements. The guidance of EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Alternatively, EITF 00-21's guidance may be accounted for and reported as a cumulative-effect adjustment. The Company began applying the guidance of EITF 00-21 to its multiple element arrangements during the current quarter, resulting in no material impact on its financial position, results of operations or cash flows.

On May 28, 2003, the EITF reached a final consensus on Issue No. 01-8, "Determining Whether an Arrangement Contains a Lease." EITF 01-8 provides guidance in determining whether an arrangement with a customer contains a lease and also provides guidance on accounting for the leasing portion of the arrangement. The Company is required to adopt the guidance in EITF 01-8 for any new or modified contractual arrangements agreed to or committed to after June 30, 2003. While implementation of EITF 01-8 has not had a material impact on the Company's financial statements thus far, there may be an impact on new or newly modified outsourcing arrangements in the future.

Forward-looking Statements

This document and other written reports and oral statements made from time to time by Acxiom and its representatives contain forward-looking statements. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding the Company's financial position, results of operations, market position, product development, growth opportunities, economic conditions, and other similar forecasts and statements of expectation. The Company generally indicates these statements by words or phrases such as "anticipate," "estimate," "plan," "expect," "believe," "intend," "foresee," and similar words or phrases. These forward-looking statements are not guarantees of future performance and are subject to a number of factors and uncertainties that could cause the Company's actual results and experiences to differ materially from the anticipated results and expectations expressed in such forward-looking statements.

The factors and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements include but are not limited to the following:

o the complexity and uncertainty regarding the development of new technologies;



o the possible loss of market share through competition or the acceptance of the Company's technological offerings on a less rapid basis than expected;

o the possibility that certain contracts may not be closed or close within the anticipated time frames;

o the possibility that certain contracts may not generate the anticipated revenue or profitability;

o the possibility that economic or other conditions, including recent world events such as the wars in Afghanistan and Iraq and the continuing threats of terrorism, might continue to have a negative impact upon the economy in general and upon the Company's business in particular, leading to a reduction in demand for Acxiom's products and services;

o the possibility that the current economic slowdown may worsen and/or persist for an unpredictable period of time;

o the possibility that economic conditions will not improve as expected;

o the possibility that significant clients may experience extreme, severe economic difficulty;

o the possibility that the fair value of certain assets of the Company may not be equal to the carrying value of those assets now or in future time periods;

o the possibility that sales cycles may lengthen;

o the continued ability to attract and retain qualified technical and leadership associates and the possible loss of associates to other organizations;

o the ability to properly motivate Acxiom's sales force and other associates;

o the ability to achieve cost reductions and avoid unanticipated costs;

o the continued availability of credit upon satisfactory terms and conditions;

o the introduction of competent, competitive products, technologies or services by other companies;

o changes in consumer or business information industries and markets;

o the Company's ability to protect proprietary information and technology or to obtain necessary licenses on commercially reasonable terms;

o the difficulties encountered when entering new markets or industries;

o changes in the legislative, accounting, regulatory and consumer environments affecting the Company's business, including but not limited to litigation, legislation, regulations and customs relating to Acxiom's ability to collect, manage, aggregate and use data;

o the possibility that data suppliers might withdraw data from the Company, leading to the Company's inability to provide certain products and services;

- the effect of short-term contracts on the predictability of the Company's revenues or the possibility that clients may cancel or modify their agreements with the Company;
- the possibility that the amount of ad hoc project work will not be as expected;
- the potential loss of data center capacity or interruption of telecommunication links or power sources;
- postal rate increases that could lead to reduced volumes of business;



- the potential disruption of the services of the United States Postal Service, their global counterparts and other delivery systems;
- the successful integration of any acquired businesses;
- with respect to the providing of products or services outside the Company's primary base of operations in the United States, all of the above factors and the difficulty of doing business in numerous sovereign jurisdictions due to differences in culture, laws and regulations; and
- other competitive factors.

In light of these risks, uncertainties and assumptions, the Company cautions readers not to place undue reliance on any forward-looking statements. Acxiom undertakes no obligation to publicly update or revise any forward-looking statements based on the occurrence of future events, the receipt of new information or otherwise.



Item 3. Quantitative and Qualitative Disclosures about Market Risk

Acxiom's earnings are affected by changes in short-term interest rates primarily as a result of its revolving credit agreement, which bears interest at a floating rate. Acxiom does not use derivative or other financial instruments to mitigate the interest rate risk. Risk can be estimated by measuring the impact of a near-term adverse movement of 10% in short-term market interest rates. If short-term market interest rates average 10% more during the next four quarters than during the previous four quarters, there would be no material adverse impact on Acxiom's results of operations. Acxiom has no material future earnings or cash flow expenses from changes in interest rates related to its other long-term debt obligations as substantially all of Acxiom's remaining long-term debt instruments have fixed rates. At both September 30, 2003 and March 31, 2003, the fair value of Acxiom's fixed rate long-term obligations approximated carrying value.

Although Acxiom conducts business in foreign countries, principally the United Kingdom, foreign currency translation gains and losses are not material to Acxiom's consolidated financial position, results of operations or cash flows. Accordingly, Acxiom is not currently subject to material foreign exchange rate risks from the effects that exchange rate movements of foreign currencies would have on Acxiom's future costs or on future cash flows it would receive from its foreign investment. To date, Acxiom has not entered into any foreign currency forward exchange contracts or other derivative instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.



Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation as of the end of the period covered by this quarterly report was carried out under the supervision and with the participation of the Company's management, including the Company Leader (Chief Executive Officer) and Financial Operations Leader (Chief Financial Officer), of the effectiveness of the design and operation of the Company's "disclosure controls and procedures," which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, the Company Leader and Financial Operations Leader concluded that the Company's disclosure controls and procedures were effective.

(b) Changes in Internal Control over Financial Reporting

The Company's management, including the Company Leader (Chief Executive Officer) and the Financial Operations Leader (Chief Financial Officer), has evaluated any changes in the Company's internal control over financial reporting that occurred during the quarterly period covered by this report, and has concluded that there was no change during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



PART II - OTHER INFORMATION

Item 1. Legal Proceedings
The Company is involved in various claims and litigation matters that arise in the ordinary course of the business. None of these, however, are believed to be material in their nature or scope.

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

The annual meeting of shareholders of the Company was held on August 6, 2003. At the meeting, the shareholders voted on the following three proposals:

1) A proposal for the election of three directors - Voting results for each individual nominee were as follows: Dr. Ann Hayes Die, 72,941,222 votes for and 4,630,134 votes withheld; Mr. William J. Henderson, 74,243,808 votes for and 3,327,548 votes withheld; and Mr. Charles D. Morgan, 73,175,417 votes for and 4,395,939 votes withheld. These three elected directors will serve with the other current board members: Rodger S. Kline, Stephen M. Patterson, and James T. Womble, whose terms will expire at the 2004 annual meeting, and William T. Dillard II, Harry C. Gambill, and Thomas F. (Mack) McLarty, III, whose terms will expire at the 2005 annual meeting.

2) A proposal to increase the number of shares available to be issued under the Company's 2000 Associate Stock Option Plan by 975,000 shares - Voting results for this proposal were as follows: 47,774,292 votes for; 29,733,067 votes against and 63,997 votes abstained.

3) A proposal to approve an amendment of the 2000 Stock Option Plan to allow the outside directors to receive options under the Plan - Voting results for this proposal were as follows: 48,907,494 votes for;

28,520,218 votes against; 143,644 votes abstained and 0 non-votes.



Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are filed with this Report:

31.1 Certification of Company Leader (principal executive officer) pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Company Financial Operations Leader (principal financial and accounting officer) pursuant to SEC Rule 13a-14(a)/15d-14(a), as adopted pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Company Leader (principal executive officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Company Financial Operations Leader (principal financial and accounting officer) pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

A report was furnished on July 11, 2003, which reported that the Company announced that it expected to achieve its revenue and earnings guidance for the first quarter of fiscal 2004 ended June 30, 2003, and reaffirmed its revenue, earnings per share and free cash flow guidance for fiscal 2004 ending March 31, 2004.

A report was furnished on July 23, 2003, which reported that the Company announced the results of its financial performance for the quarter ending June 30, 2003.



ACXIOM CORPORATION AND SUBSIDIARIES

SIGNATURE

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

Acxiom Corporation

Dated: November 10, 2003

By: /s/ Jefferson D. Stalnaker
---------------------------------------------
(Signature)
Jefferson D. Stalnaker
Company Financial Operations Leader
(principal financial and accounting officer)

EXHIBIT 31.1

CERTIFICATION

I, Charles D. Morgan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Acxiom Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 10, 2003

By: /s/ Charles D. Morgan
-----------------------------------------
(Signature)
Charles D. Morgan
Company Leader
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Jefferson D. Stalnaker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Acxiom Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 10, 2003

By: /s/ Jefferson D. Stalnaker

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(Signature)
Jefferson D. Stalnaker
Company Financial Operations Leader
(principal financial and accounting officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report of Acxiom Corporation (the Company) on Form 10-Q for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Charles D. Morgan, Company Leader (principal executive officer) of the Company, certify, pursuant to 18 U.S.C. & 1350, as adopted pursuant to & 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Charled D. Morgan

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Charles D. Morgan
Company Leader
(principal executive officer)
November 10, 2003

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report of Acxiom Corporation (the Company) on Form 10-Q for the period ending September 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jefferson D. Stalnaker, Financial Operations Leader (principal financial and accounting officer) of the Company, certify, pursuant to 18 U.S.C. & 1350, as adopted pursuant to & 906 of the Sarbanes-Oxley Act of 2002, to my knowledge, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Jefferson D. Stalnaker

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Jefferson D. Stalnaker
Company Financial Operations Leader
(principal financial and accounting officer)
November 10, 2003