Acxiom Corporation *1998 Annual Report*

When people ask about our business
and the industry we lead,
there's a story that we tell of different folks
and what they need...

Financial Highlights

Dollars in thousands except per share data	1998	1997	% Change
Revenue and Earnings			
Revenue	**$ 465,065**	$ 402,016	16
Income from operations	**$ 59,445**	$ 49,327	21
Earnings before income taxes	**$ 56,503**	$ 44,038	28
Net earnings	**$ 35,597**	$ 27,512	29
Diluted earnings per share	**$ .60**	$ .47	28
Financial Position at Year End			
Working capital	**$ 46,252**	$ 48,345	
Total assets	**$ 394,310**	$ 299,668	
Long-term debt, excluding current installments	**$ 99,917**	$ 87,120	
Stockholders' equity	**$ 200,128**	$ 156,097	
Other Financial Items			
Operating cash flow	**$ 64,193**	$ 35,085	
Capital expenditures	**$ 55,834**	$ 59,784	
Depreciation and amortization	**$ 40,746**	$ 33,244	

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To Our Shareholders:

As you can see, we decided to lend a little humor to this year's annual report. Then again, looking back over the past year, Acxiom® and its shareholders have plenty to smile about. Earnings reached record highs as we signed on new customers, completed a number of acquisitions, and expanded our lines of business. Furthermore, we received recognition as one of the 100 best places to work in the United States and unveiled a new way to deliver data, the Acxiom Data Network℠, that I believe to be a defining moment in the growth of our enterprise.

My letter will touch on all of the above, but let me begin by filling you in on the year's financial highlights. This was the first full year following Acxiom's realignment into four divisions, and I am delighted with the results we achieved. Consolidated revenue increased 16 percent to $465 million, while on an adjusted basis comparative revenue grew 22 percent (as explained on page 18). On an individual adjusted basis, our Alliances, Services, Data Products, and International divisions posted revenue increases of 24, 18, 25, and 19 percent, respectively.

Bottom-line growth was even more impressive as overall net earnings increased 29 percent to $35.6 million, or $.60 per diluted share. This is our sixth consecutive year in which earnings grew by at least 25 percent and the third straight year in which at least half our revenue resulted from long-term contracts. We also improved our return on equity to 20.4 percent and our pretax margin to 12.1 percent.

On March 31, 1998, Acxiom stock closed at 25⅝, a 78 percent year-over-year increase. That is outstanding even in the context of the ongoing U.S. bull market and significantly better than the performance of leading benchmarks such as the Nasdaq Composite and the Russell 2000 over the same period. By the way, if you had invested $100 in Acxiom stock six years ago, today your shares would be worth $1,301 (see page 15).

Acxiom has been and continues to be committed to maximizing shareholder value. We believe that implementing Economic Value Added (EVA®) in every aspect of our business has contributed to the exceptional performance of our stock price.[1] EVA measures a company's performance by taking its after-tax operating profit and subtracting the cost of capital. EVA is gaining acceptance in the investment community, and at Acxiom we use it to gauge the profitability of our products and each customer relationship, to determine pricing, to measure the results of our improvement efforts, and to evaluate potential acquisitions.

Nowhere is Acxiom's growth more evident than in our financial services group, where revenue grew by 58 percent this past year and should increase strongly again in fiscal 1999. Indeed, four of the seven companies that are new to our list of "Top 25 Customers" (see page 14) come from this industry. We now provide 17 of the top 25 credit card issuers in the United States with database services that allow them to identify the consumers and businesses most likely to want their cards—and to reach these potential customers as rapidly as possible. It's successes like these that have pushed our customer-satisfaction rating higher and led the Gartner Group, the country's leading technology consulting firm, to rank Acxiom at the top of our industry for our ability to execute.

Acxiom has continued to refine the market management solutions we offer credit card issuers, and we are now having tremendous success with a next-generation solution under the

[1] *EVA® is a registered trademark of Stern Stewart & Co.*

…It's about a group of runners who just couldn't win a race till they wore the perfect sneakers, now they triumph every place…

...and families of most any size who want to make quite sure that their children always have the means to go to school and more...

Solvitur℠ brand name. Solvitur offers businesses a fully integrated market management system that combines Acxiom's data and data integration with the best third-party software and hardware available. A number of Solvitur installations are fully operational with several more in the pipeline.

We are applying our market management solutions for other industries, such as high-tech, insurance, media, retail, and telecommunications, under the Solvitur brand name as well. Of course, this is no off-the-shelf product; we've customized the components offered to each industry based on its specific needs. Not only do we expect Solvitur to earn us new customers; it should also help us cultivate additional business from our existing customer base.

Looking beyond financial services, nearly every other area of Acxiom's business turned in excellent results this past year. Our outsourcing agreements with Trans Union, Guideposts, and The Polk Company—all managed by our Alliances division—collectively generated $80 million in revenue. We're pleased that Guideposts, which was our first outsourcing customer, has signed on for an additional 10 years, ensuring that we will continue our partnership until at least 2007.

If I could point to one soft spot for us domestically in the past year, it would be the telecommunications industry. We expected deregulation to spur much more competition as local and long-distance service providers began targeting one another's customers. This process has moved more slowly than anticipated.

I have only good news to report from the other side of the Atlantic. Our U.K.-based International division increased its revenue by 19 percent to $33.6 million while pretax income climbed a healthy 77 percent, to $3 million.

Clearly, global awareness of our industry as a whole continues to grow. Foreign companies are increasingly using Acxiom's large-scale data management capabilities to understand their customers better, and in the past year alone we added Vodafone, Great North Eastern Railway, Tesco Stores, and Cable & Wireless Communications to our client roster.

In addition, Acxiom's U.S.-based clients are starting to utilize our services wherever they do business around the world. Our relationship with IBM is a prime example. Acxiom supports IBM's analytic database for Europe, the Middle East, and Africa, helping IBM market to customers in these regions and track and analyze results.

The International division also boasts a sophisticated call center and fulfillment operation that serves such customers as Procter & Gamble, Texaco, Toyota, and the Australian Tourist Commission (ATC). Recently, *Travel Weekly* magazine awarded the ATC its prestigious Golden Globe for outstanding service based on the work it outsources to Acxiom. Our call center and fulfillment work have been so successful that we are planning construction at our Sunderland, U.K., location on a 140,000-square-foot facility that nearly doubles our present capacity.

We continue to expand our business through acquisition as well. At the close of our fiscal year we announced our purchase of a majority interest in NormAdress, a leading Paris-based database and direct marketing company. Acxiom's technology and product set should prove invaluable to NormAdress' extensive client base within France. In turn, NormAdress has an excellent understanding of the French marketplace and will help us better serve companies entering that country.

Closer to home, in the fourth quarter we purchased 40 percent of the Boston-based marketing consulting firm Exchange Marketing Group (EMG), with an option to acquire the entire company at a future date. Our equity stake in EMG gives Acxiom entry into the growing marketplace for consulting services. We believe that adding a consulting component to our data warehousing capabilities is a combination that existing and potential customers will find useful.

As this report went to press, Acxiom also announced a merger with May & Speh, Inc. Based in Downers Grove, Illinois, May & Speh gives Acxiom additional strengths in predictive modeling, software, data management, and data center outsourcing. The combined entity will continue under the Acxiom name. Pending regulatory and shareholder approval, the merger should close in August 1998.

We are evaluating other U.S. and international acquisitions as well that can either enrich our data content, enhance our technology, or improve the distribution of our information. One of the underlying drivers of such acquisitions is consolidation within many of our customer industries, which is producing larger entities with more complex global marketing needs. We must be in a position to serve these companies or someone else will. We are

...as well as skiers, avid readers, who cannot contain their pleasure in discovering more titles on their favorite form of leisure...

also witnessing a transformation in our own data and information services industry as several niche players consolidate into fewer, more powerful companies. Acquisitions will help us stay ahead of these businesses. At the same time, we do not believe in acquisition at any cost and have passed on more than one potential candidate whose asking price did not make good economic sense for us.

Let me now offer you a brief status report on some of the sub-brands in our Data Products division before I share my excitement about our latest data products venture, the Acxiom Data Network:

Acxiom/DataQuick®, the leading name in on-line property data, generated more than $30 million in revenue and continues to increase its national database. Acxiom/DataQuick now offers data on nearly 90 percent of the major metropolitan statistical areas in the United States.

Acxiom/Direct Media™, the world leader in list management, generated $60 million in revenue, an 8 percent increase over the previous year. We also made a number of acquisitions to support the future growth of Acxiom/Direct Media, including Shop the World by Mail, MultiNational Concepts, Ltd., KM Lists, Incorporated, National List Protection Systems, Inc., and DMI Netherlands.

In the second quarter we completed the sale of the retail and direct marketing operations of Pro CD®, Inc. Although that business had accounted for more than $11 million in revenue in fiscal 1997, we believe that selling telephone and related data on CD-ROM no longer offers the kind of bottom-line growth we seek. Consumers can now find similar telephone information easily on the Internet.

In my opening paragraph I alluded to a new way of delivering data that represents nothing less than a paradigm shift within our organization. I was referring to the Acxiom Data Network (www.acxiom.com/adn), an on-line retrieval system that will allow businesses of any size to access selected products from our InfoBase repository of marketing enhancement data over the Internet. Imagine being able to append customer and prospect files stored in a program such as Microsoft Access or Excel in a matter of minutes with information that can make your sales efforts more effective. The Acxiom Data Network does exactly that, and we've adhered to the most common standards in the software industry to be able to interface with any piece of Windows®-compatible business software[2]. Of course, we also have built in a number of security measures to ensure that only companies with legitimate business purposes can access information.

We began offering the Acxiom Data Network to beta users on May 1 and expect it to be ready for general availability in the coming months. It will have a fee structure that U.S. and foreign businesses of all sizes can afford. Initially, we expect the Acxiom Data Network to appeal to larger companies already accustomed to the benefits of decision support databases. However, there are about 5 million medium-sized businesses and 15 million small companies in the United States alone that can now easily access information that was formerly the exclusive domain of the world's largest companies. The technology behind the Acxiom Data Network will also help us dramatically increase the effectiveness of our own internal processes, allowing Acxiom to provide nearly all our traditional data-enhancement services for our largest customers more cost-effectively.

[2] *Windows® is a registered trademark of Microsoft Corp.*

...or some cooks who live too far from gourmet shops who soothe their palates with deliveries of pastas, sauces, pâté, truffles, shallots...

...and customers who visit almost any kind of store having far more payment options than they ever had before...

WE BELIEVE SO STRONGLY IN ACXIOM DATA NETWORK TECHNOLOGY THAT WE HAVE MADE ITS IMPLEMENTATION ACROSS ALL OUR LINES OF BUSINESS ONE OF FOUR CORPORATE INITIATIVES FOR FISCAL 1999. The other three include developing new business from our current roster of clients, which I've already mentioned, improving our recruitment efforts, and addressing the Year 2000 problem. I will discuss these last two shortly.

First, let me tell you about a number of other growth opportunities throughout our company. For example, the Services division has taken steps to begin providing database solutions to two industries that are relatively new to us: pharmaceuticals and utilities. In the pharmaceuticals business, manufacturers are looking for ways to maximize sales during the limited time that their drugs enjoy patent protection. We want to help them identify the types of customers that are most likely to benefit from their products.

Rather than start this business from scratch, in the third quarter we acquired Buckley Dement, L.P., a highly successful niche marketer of direct mail services to healthcare and pharmaceutical companies. Buckley Dement has an excellent reputation and a valuable roster of customers, but it lacked the technological resources to meet their growing marketing demands. As part of Acxiom it can now offer the large-scale marketing and decision support databases that we've been providing to companies in other industries. We've already won a contract to build a database for one of the largest pharmaceutical companies in the United States. Buckley Dement's mailing list assets will also prove valuable to Acxiom/Direct Media. For example, it is the largest of only 10 licensees of the American Medical Association's proprietary list of physicians.

In the utilities industry, deregulation is creating competition for the first time. As a result, natural gas and electricity providers that were once virtual monopolies are scrambling for the most effective way to retain existing customers and attract new ones. Such a transformation offers Acxiom an opportunity to help these companies maximize their share of an industry that generates some $200 billion in revenue annually.

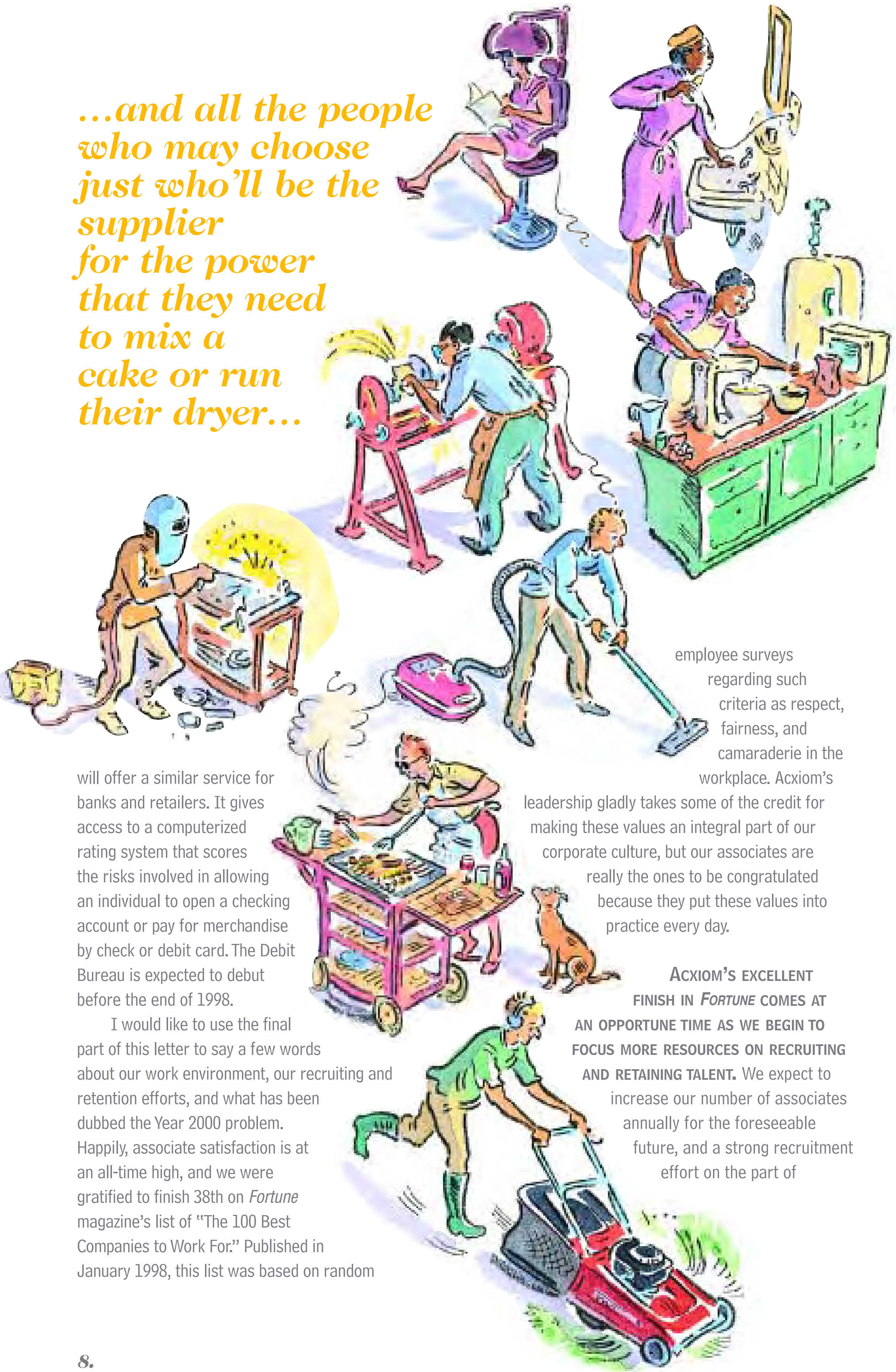
That's why we participated in IBM's development of a fully integrated customer-relationship marketing solution called DecisionEdge for Utilities™. DecisionEdge will, among other things, help utilities understand and predict consumer behavior and manage marketing programs accordingly. IBM's software expertise, global marketing organization, and significant presence in the energy services industry make it the ideal partner for this venture. Our first joint installation, for Indiana's NIPSCO Industries, should be operational by August 1998.

Although Acxiom is best known for our capabilities in building marketing databases, we have also been developing products that can speed processes and reduce fraud in the insurance, financial, and retail industries. Fraud represents a $100 billion problem for the insurance industry alone. The Application Verification Service (AVS), which came on-line in the fourth quarter, reduces the time it takes to complete and underwrite an insurance application over the telephone to less than 15 minutes. Its ability to instantly verify such information as address, household members, and claims history as well as to evaluate risk clearly has tremendous applications for the financial services industry and beyond.

The Debit Bureau, a product of Deluxe Corp. and developed in partnership with Acxiom and Fair, Isaac & Co.,

...or anyone at all who likes having less to pay when they telephone their aunt or send a fax to the U.K....

...and all the people who may choose just who'll be the supplier for the power that they need to mix a cake or run their dryer...



will offer a similar service for banks and retailers. It gives access to a computerized rating system that scores the risks involved in allowing an individual to open a checking account or pay for merchandise by check or debit card. The Debit Bureau is expected to debut before the end of 1998.

I would like to use the final part of this letter to say a few words about our work environment, our recruiting and retention efforts, and what has been dubbed the Year 2000 problem. Happily, associate satisfaction is at an all-time high, and we were gratified to finish 38th on *Fortune* magazine's list of "The 100 Best Companies to Work For." Published in January 1998, this list was based on random employee surveys regarding such criteria as respect, fairness, and camaraderie in the workplace. Acxiom's leadership gladly takes some of the credit for making these values an integral part of our corporate culture, but our associates are really the ones to be congratulated because they put these values into practice every day.

Acxiom's excellent finish in *Fortune* comes at an opportune time as we begin to focus more resources on recruiting and retaining talent. We expect to increase our number of associates annually for the foreseeable future, and a strong recruitment effort on the part of everyone in our organization will be required to assure that we get the best people available. That means experienced workers as well as the brightest new college graduates. I cannot overstate the importance of seeing that our present associates choose to remain at Acxiom as well. That requires more than just competitive financial compensation. For example, the associate feedback we solicit on a regular basis drove our decision to build a wellness center and childcare facility that are available to everyone on our Conway campus.

As to the Year 2000 problem, companies around the world are now taking steps to make certain that their computer systems won't be hampered by the beginning of a new century. Acxiom is no exception. You no doubt have seen the cautionary articles on this issue, also known as "the millennium bug." Since much of the computer code that has been written over the past 30 years only left room for a given year's final two digits, many software systems have no way to distinguish between, say, 2005 and 1905. That can cause significant glitches in key areas of business. We have a cross-divisional team in place to address this issue, and I am confident that we will have our own house in order long before the clock strikes midnight on December 31, 1999.

In closing, it has been another active and profitable year for Acxiom. As you can see, we've taken a significant number of steps that not only ensure our continued growth but also strengthen our leadership position in data content and database management. On behalf of our 3,600 associates worldwide, thank you for your continued confidence in the work that we do.

Sincerely,

Charles D. Morgan

Charles D. Morgan
Chairman of the Board and Company Leader

…We've lots more information that will help you know us better, so go back to the beginning for you'll find it in the letter.

Acxiom At-A-Glance

Acxiom Sub-Brands

Acxiom/Direct Media™
Acxiom/Direct Media offers the most comprehensive suite of services and products in the direct marketing industry, from list brokerage and list management to Web banner and e-mail solutions.

Acxiom/DataQuick®
Acxiom/DataQuick is the largest provider in the United States of on-line property data for real-estate related businesses, including realtors, mortgage lenders, financial institutions, and title companies.

Acxiom Data Network℠
Acxiom Data Network uses leading-edge technology to provide authorized businesses secured network access to selected Acxiom data products.

Acxiom/InfoBase®
Acxiom/InfoBase provides enhancement data that help consumer and business-to-business marketers understand their customers better, reach qualified prospects in the most cost-effective manner possible, and improve operational efficiency. It also offers lists for rent and files for license.

Acxiom/SmartBase®
Acxiom/SmartBase is the premier cooperative membership database for catalog marketers and other selected industries. It offers access to low-cost, high-quality names from hundreds of top merchandise lists.

Acxiom/Composer℠
Acxiom/Composer offers a range of services that can increase the accuracy, efficiency, and deliverability of prospect mailing lists.

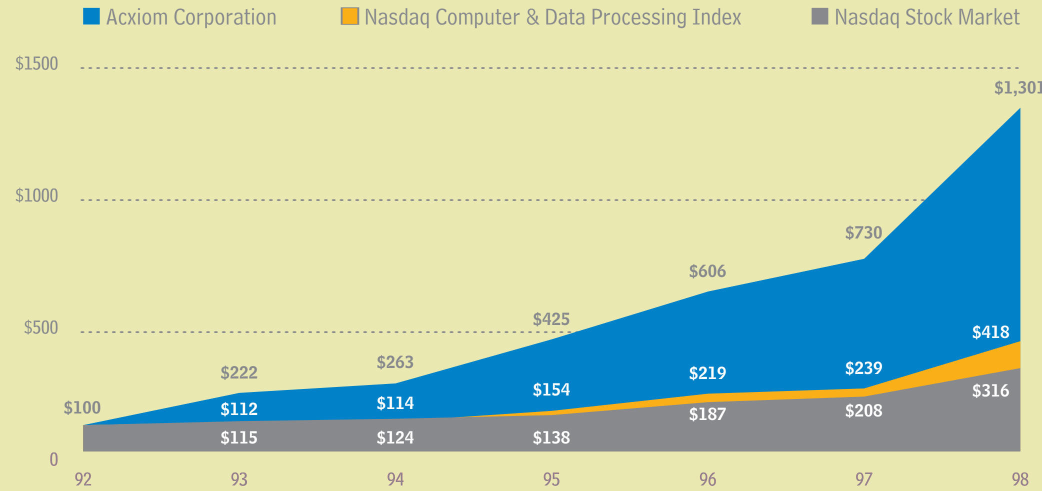
Acxiom/Solvitur℠
Acxiom/Solvitur provides businesses with an integrated software, hardware, and data products solution to effectively plan, implement, and track marketing campaigns.

Top 25 Customers

AT&T Corporation
Advance Publications, Inc.
Allstate Insurance Company
American Management Association
Automatic Data Processing, Inc.
Cable & Wireless Communications plc*
Chevy Chase Federal Savings Bank
Citibank, N.A.
Deluxe Financial Services, Inc.*
First USA Bank*
General Electric Corporation
Guideposts A Church Corporation
IBM Corporation
Imperial Tobacco Limited
Meredith Corporation
NationsBank of Delaware, N.A.*
Novus Credit Services, Inc.*
NUMA Corporation*
PNC Bank, N.A.
Procter & Gamble
Prudential Insurance Co.
Tesco Stores Limited*
The Polk Company
Trans Union Corporation
Wal-Mart Stores, Inc.

**New to this list in fiscal 1998.*

$100 Invested in Acxiom Stock Six Years Ago...



The growth of $100 invested in Acxiom stock on 3/31/92 compared to the overall Nasdaq Stock Market and the Nasdaq Computer & Data Processing Index. Includes reinvestment of dividends. Fiscal years ending March 31.

Frequently Asked Questions

Where does Acxiom get its information?
Acxiom compiles data from a variety of public record sources such as telephone directories and county recorder and assessor offices. We also purchase data from other reputable information providers.

Does Acxiom maintain any other information about consumers?
Acxiom maintains customer information for many large corporations. This data is proprietary and is not sold or accessible by any other entity.

Does Acxiom own any credit or medical information on consumers?
No. We do process this type of information, though, for major corporations such as banks and insurance companies. In all cases, this information is proprietary data owned and controlled by Acxiom's customers.

How can the consumer benefit from the information Acxiom maintains?
Consumers benefit by receiving offers from businesses for services and products in which they have an interest. That means lowered product prices because of more efficient marketing and quicker fulfillment of an inquiry or order. It also means less unwanted mail.

Does Acxiom support a consumer's right to privacy?
Yes. We follow an extensive set of guidelines recommended by the Direct Marketing Association (DMA) regarding this important issue. Furthermore, Acxiom will explain to any consumer how to have his or her name removed from public record files and marketing lists. Any consumer who completes our opt-out form can have his or her name deleted from our InfoBase compiled consumer data file.

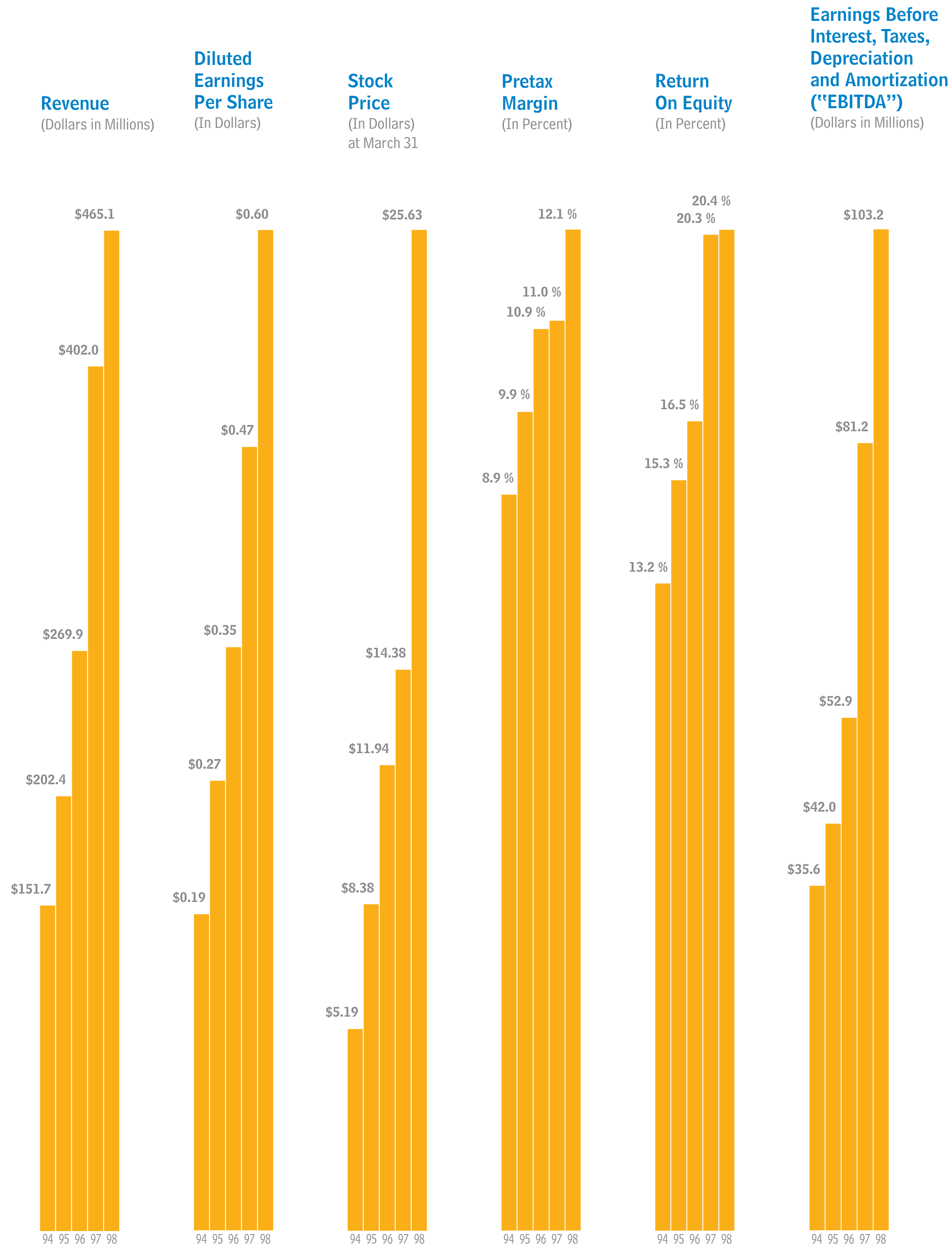
How are Acxiom's divisions defined?
Acxiom's data content sub-brands, such as Acxiom/InfoBase, Acxiom/DataQuick, and Acxiom/DMI, are part of the Data Products division. The Alliances division manages Acxiom's outsourcing relationships with companies such as Trans Union, The Polk Company, and Guideposts. The Services division is responsible for data warehouses and other database-related services targeted primarily at U.S. vertical markets. The International division has a focus similar to Services but on a global basis.

Selected Financial Data

Years Ended March 31,	1998	1997	1996	1995	1994
Earnings Statement Data:					
Revenue	$ 465,065	402,016	269,902	202,448	151,669
Net earnings	$ 35,597	27,512	18,223	12,405	8,397
Basic earnings per share	$ .68	.54	.39	.29	.20
Diluted earnings per share	$ .60	.47	.35	.27	.19

March 31,	1998	1997	1996	1995	1994
Balance Sheet Data:					
Current assets	$ 114,552	87,472	54,014	43,517	35,857
Current liabilities	$ 68,300	39,127	31,159	24,964	12,895
Total assets	$ 394,310	299,668	194,049	148,170	123,378
Long-term debt, excluding current installments	$ 99,917	87,120	26,885	18,219	34,992
Redeemable common stock	$ —	—	—	—	7,692
Stockholders' equity	$ 200,128	156,097	122,741	97,177	61,896

(In thousands, except per share data. Per share data are restated to reflect 2-for-1 stock splits in fiscal 1997 and 1995.)



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Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

In fiscal 1998, the Company recorded the highest annual revenues, earnings, and earnings per share in its history.

The following table shows the Company's revenue by division for each of the years in the three-year period ended March 31, 1998 (dollars in millions):

	1998	1997	1996	1997 to 1998	1996 to 1997
Services Division	**$152.5**	$129.5	$105.2	+18%	+23%
Alliances Division	**146.7**	129.0	89.0	+14	+45
Data Products Division	**132.3**	115.3	58.0	+15	+99
International Division	**33.6**	28.2	17.7	+19	+59
	$465.1	$402.0	$269.9	+16%	+49%

Consolidated revenue was a record $465.1 million in 1998, up 16% from 1997. Adjusting for Trans Union pass-through revenue recorded last year and the Pro CD retail business which was sold in 1998, the increase for 1998 was 22%. For 1997, revenue grew 49%, reflecting 29% due to internal growth and 20% resulting from the Pro CD and DMI acquisitions which were completed at the beginning of 1997.

Services Division revenue increased 18% for 1998, after increasing 23% in 1997. Business units with double-digit revenue increases from 1997 to 1998 included Retail, High Tech, Publishing, and Utilities, along with the business units serving Allstate, Citicorp, and IBM. The Services Division results also include revenue from the Buckley Dement acquisition for the second half of the year. These increases were partially offset by a decrease in the Telecommunications business unit revenue from the prior year resulting from the continued inability of the regional Bell operating companies to effectively compete in the long distance phone market. The revenue increase for the Services Division in fiscal 1997 is primarily due to growth in the Publishing, High Tech, and Retail business units, along with the business unit serving Allstate.

Alliances Division revenue increased 14% from 1997 to 1998, following an increase of 45% from 1996 to 1997. However, after adjusting for a reduction in pass-through revenue recorded on the Trans Union marketing services agreement in 1997 of approximately $11 million, revenue actually increased by 24% in 1998. Financial services revenue jumped by 58% in 1998 reflecting the Company's success in delivering open data mart solutions to credit card marketers. Included in this revenue is the revenue for equipment and software sold in connection with these solutions. Trans Union revenue decreased when compared to 1997, but again adjusting for the pass-through revenue recorded last year, Trans Union revenue actually increased 19%, reflecting growth in the data center contract and revenue related to the marketing services agreement. Growth in other Alliances Division business units was offset by lower revenue from the Polk business unit due to a software sale in 1997. The revenue increase for the Alliances Division in 1997 reflects growth in credit card processing revenues of 31% and incremental revenues from the outsourcing contract with Polk, which was still ramping up in 1996.

Data Products Division revenue increased 15% in 1998 after almost doubling in 1997. Pro CD revenue decreased by $6.6 million in 1998 reflecting the sale of the retail and direct marketing side of the business to American Business Information, Inc. ("ABI") in August, 1997 which offset growth in the corporate side of the business. Gains were also reported by other Data Products business units including Acxiom Data Group (InfoBase), up 50%, DataQuick, up 21%, and DMI, up 14%. The increase in revenue in 1997 is due primarily to the DMI and Pro CD acquisitions which were completed at the beginning of fiscal 1997.

The International Division recorded revenue increases of 19% and 59% for 1998 and 1997, respectively. The increases in 1998 and 1997 were attributable to an increase in the level of fulfillment activity and increases in database services.

The following table shows the Company's revenue distribution by customer industry for each of the years in the three-year period ended March 31, 1998 (dollars in millions):

	1998	1997	1996	1997 to 1998	1996 to 1997
Direct Marketing	**$155.5**	$136.9	$ 72.1	+14%	+90%
Financial Services	**113.8**	80.4	72.0	+42	+12
Insurance	**92.0**	81.2	67.1	+13	+21
Information & Communication Services	**77.3**	81.1	42.1	− 5	+93
Media/Publishing	**26.5**	22.4	16.6	+18	+35
	$465.1	$402.0	$269.9	+16%	+49%

The 1998 growth was led by the financial services sector as a result of strength in credit card-related revenue. Direct marketing and information & communication services growth was mitigated by the Trans Union pass-through revenue and the sale of the Pro CD retail and direct marketing business noted earlier. The 1997 growth was impacted favorably by the acquisitions of DMI and Pro CD at the beginning of the year.

The following table presents operating expenses for each of the years in the three-year period ended March 31, 1998 (dollars in millions):

	1998	1997	1996	1997 to 1998	1996 to 1997
Salaries and benefits	**$173.9**	$145.0	$ 98.1	+20%	+48%
Computer, communications and other equipment	**60.9**	58.6	41.0	+ 4	+43
Data costs	**86.5**	76.3	63.4	+13	+20
Other operating costs and expenses	**84.3**	72.8	36.7	+16	+98
	$405.6	$352.7	$239.2	+15%	+47%

Salaries and benefits increased from 1997 to 1998 by 20% principally due to increased headcount to support the growth of the business and merit increases, combined with increases in incentive compensation and the impact of acquisitions during the year. Salaries and benefits increased from 1996 to 1997 by 48% due primarily to the acquisitions of DMI and Pro CD. After adjusting for the acquisitions, the resulting 20% growth primarily reflects increased headcount to support the growth of the business.

Computer, communications and other equipment costs rose 4% from 1997 to 1998. The increase reflects depreciation on capital expenditures made to accommodate business growth, mostly offset by the effect of the Trans Union pass-through expenses recorded in the prior year. Computer, communications and other equipment costs increased 43% in 1997. After adjusting for the acquisitions of Pro CD and DMI and the pass-through expenses, computer costs increased 15% due primarily to additional depreciation and other equipment costs related to increases in data center equipment to support the growth of the business, including the Polk outsourcing contract.

Data costs grew 13% in 1998 and 20% in 1997. In both years, the primary reason for the increase was the growth in revenues under the Allstate contract.

Other operating costs and expenses increased 16% in 1998. The increase is primarily attributable to acquisitions, the server sales by the Alliances Division noted above, an increase in bad debt expense, and volume-related increases, reduced by the impact of the sale of the Pro CD retail and direct marketing business. For 1997, other operating costs and expenses increased 98%. After adjusting for the impact of the DMI and Pro CD acquisitions and the ramp-up of the Polk contract, the increase was 24% reflecting increased costs necessary to support increased revenues.

Software and research and development spending was $23.3 million in 1998 compared to $17.2 million in 1997 and 10.4 million in 1996.

Income from operations in 1998 was a record $59.4 million, an increase of 21% over 1997. Income from operations in 1997 reflected an increase of 61% over 1996. The operating margin in 1998 was 12.8%, compared to 12.3% in 1997 and 11.4% in 1996.

Interest expense increased by over $2 million in both 1998 and 1997 due primarily to increased average debt levels each year.

Other, net for 1998 includes $1.0 million in gains on the disposals of the Pro CD retail and direct marketing business compared with a $2.6 million charge in 1997 due to a write-off related to the sale of an Acxiom Mailing Services facility. Other, net in 1998 also includes interest income on noncurrent receivables of $1.9 million compared with interest income of $0.5 million in 1997.

The Company's effective tax rate was 37.0%, 37.5%, and 38.0% for 1998, 1997, and 1996, respectively. In each year, the effective rate exceeded the U.S. statutory rate primarily because of state income taxes, partially offset by research and experimentation tax credits.

Net earnings were a record $35.6 million in 1998, an increase of 29% from 1997, after increasing 51% from 1996 to 1997. Basic earnings per share increased 26% to $0.68 in 1998 after increasing 38% in 1997. Diluted earnings per share were $0.60, up 28% from 1997, after increasing 34% in 1997.

Capital Resources and Liquidity

Working capital at March 31, 1998 totaled $46.3 million compared to $48.3 million a year previously. At March 31, 1998, the Company had available credit lines of $119.9 million of which $36.4 million was outstanding. The Company has renewed and expanded the revolving credit agreement which now allows for revolving loans and letters of credit of up to $125 million. The Company has been allowed by the holders of the $25 million convertible note payable to reduce the amount of the letter of credit which collateralizes the convertible note to $6.6 million, which increases the Company's available credit line under the revolving credit agreement to $118.4 million. The Company also has a short-term unsecured credit agreement in the amount of $1.5 million. The Company's debt-to-capital ratio (capital defined as long-term debt plus stockholders' equity) was 33% at March 31, 1998 compared to 36% at March 31, 1997. Total stockholders' equity increased 28% to $200.1 million at March 31, 1998.

Cash provided by operating activities was $64.2 million for 1998 compared to $35.1 million in 1997 and $39.3 million in 1996. Earnings before interest, taxes, depreciation, and amortization ("EBITDA") increased by 27% in 1998 after increasing 54% in 1997. The resulting operating cash flow was reduced by $24.7 million in 1998 and $41.1 million in 1997 due to the net change in operating assets and liabilities. The change primarily reflects higher current and noncurrent receivables, offset in 1998 by higher accounts payable and accrued liabilities resulting from the growth of the business and advances from customers.

Investing activities used $78.7 million in 1998, $64.1 million in 1997, and $46.9 million in 1996. Investing activities in 1998 included $55.8 million in capital expenditures, compared to $59.8 million in 1997 and $39.0 million in 1996. Capital expenditures are principally due to purchases of data center equipment to support the Company's outsourcing agreements with Polk and Trans Union, as well as the purchase of additional data center equipment in the Company's core data centers. Over the last few years, the Company has been expanding its data centers to provide for incremental capacity and has been re-engineering a number of key proprietary processes to run on client servers using low-cost parallel processors. In 1996, the Company also completed an expansion of its Conway data center and a new 100,000 square-foot customer service building on its main campus in Conway, Arkansas, at a cost of approximately $12 million, funded through current operations and existing credit lines.

Investing activities during 1998 also include $13.3 million in software development costs, compared to $6.7 million in 1997 and $3.9 million in 1996. In general, the increase is due to software development undertaken to support large customer contracts in the Alliances Division. Investing activities also reflect the cash of $18.8 million paid for the purchases of STW and Buckley Dement, partially offset by $15.3 million received from the sale of assets, including $13.0 million from the sale of the retail and direct marketing assets of Pro CD. Notes 13 and 14 to the consolidated financial statements discuss the acquisitions and dispositions in more detail. Investing activities also reflect the investment of $6.1 million by the Company in joint ventures, including an investment of approximately $4 million in Bigfoot International, Inc., an emerging company that provides services and tools for internet e-mail users.

Financing activities in 1998 provided $17.5 million, including sales of common stock through the Company's stock option and employee stock purchase plans, and additional borrowings under the revolving line of credit. Financing activities in 1997 include the issuance of $30 million in senior notes, the issuance of a $25 million convertible note in connection with the purchase acquisition of DMI, and increases under the revolving credit facility. Financing activities in 1997 also reflect the payment of short-term bank debt assumed when the Company acquired DMI. Financing activities in 1996 include the effects of cash dividends and common stock transactions made by DataQuick prior to its acquisition in August, 1995.

During fiscal 1999, construction is expected to be completed on the Company's new headquarters building and a new customer service facility in Little Rock, Arkansas. These two buildings are being built pursuant to 50/50 joint ventures between the Company and local real estate investors. The total cost of the headquarters and customer service projects is expected to be approximately $6.4 million and $9.1 million, respectively. The Company expects other capital expenditures of $55-$65 million in fiscal 1999.

While the Company does not have any other material contractual commitments for capital expenditures, additional investments in facilities and computer equipment continue to be necessary to support the growth of the business. In addition, new outsourcing or facilities management contracts frequently require substantial up-front capital expenditures in order to acquire or replace existing assets. In some cases, the Company also sells software, hardware, and data to customers under extended payment terms or notes receivable collectible over one to eight years. These arrangements also require up-front expenditures of cash, which are repaid over the life of the agreement. Management believes that the combination of existing working capital, anticipated funds to be generated from future operations, and the Company's available credit lines is sufficient to meet the Company's current operating needs as well as to fund the anticipated levels of expenditures. If additional funds are required, the Company would use existing credit lines to generate cash, followed by either additional borrowings to be secured by the Company's assets or the issuance of additional equity securities in either public or private offerings. Management believes that the Company has significant unused capacity to raise capital which could be used to support future growth.

The Company, like many owners of computer software, has assessed and is in the process of modifying, where needed, its computer applications to ensure they will function properly in the year 2000 and beyond. The financial impact to the Company has not been and is not expected to be material to its financial position or results of operations in any given year. The Company is currently operating under an internal goal to ensure all of its computer applications are "year 2000 ready" by December 31, 1998.

Seasonality and Inflation

Although the Company cannot accurately determine the amounts attributable thereto, the Company has been affected by inflation through increased costs of compensation and other operating expenses. Generally, the effects of inflation are offset by technological advances, economies of scale and other operational efficiencies. The Company has established a pricing policy for long-term contracts which provides for the effects of expected increases resulting from inflation.

The Company's operations have not proved to be significantly seasonal, although the Company's traditional direct marketing operations experience slightly higher revenues in the Company's second and third quarters. In order to minimize the impact of these fluctuations, the Company continues to move toward long-term strategic partnerships with more predictable revenues. Revenues under long-term contract (defined as three years or longer) were 54%, 50%, and 52% of consolidated revenues for 1998, 1997, and 1996, respectively.

Acquisitions

In fiscal 1997, the Company completed two acquisitions, which became effective in April 1996. The acquisition of Pro CD, Inc. was accounted for as a pooling-of-interests and the acquisition of Direct Media/DMI, Inc. was accounted for as a purchase. In 1998, the Company completed two additional acquisitions, which were effective October 1, 1997. The acquisitions of MultiNational Concepts, Ltd. and Catalog Marketing Services, Inc., entities which were under common control, and Buckley Dement, L.P. and its affiliated company, KM Lists, Incorporated were both accounted for as purchases. See footnote 13 to the consolidated financial statements for more information regarding these acquisitions. The Company has also made several smaller acquisitions, which are not material either individually or in the aggregate.

Other Information

In 1998, 1997, and 1996, the Company had two customers who accounted for more than 10% of revenue. Allstate accounted for 16.1%, 16.8%, and 20.7% in 1998, 1997, and 1996, respectively, and Trans Union accounted for 11.8%, 14.1%, and 15.5% in 1998, 1997, and 1996, respectively. The Trans Union data center management agreement and marketing services agreement have been extended and now expire in 2005. A long-term extension of the Allstate agreement, which was originally signed for a five-year term expiring in September, 1997 and has been extended until September, 1998 is currently being negotiated. The Company does not have any reason to believe that either of these customers will not continue to do business with the Company.

Acxiom U.K., the Company's United Kingdom business, provides services to the United Kingdom market which are similar to the traditional direct marketing industry services the Company provides in the United States. In addition, Acxiom U.K. also provides promotional materials handling and response services to its U.K. customers. Most of the Company's exposure to exchange rate fluctuation is due to translation gains and losses as there are no material transactions which cause exchange rate impact. The U.K. operation generally funds its own operations and capital expenditures, although the Company occasionally advances funds from the U.S. to the U.K. These advances are considered to be long-term investments, and any gain or loss resulting from changes in exchange rates as well as gains or losses resulting from translating the financial statements into U.S. dollars are accumulated in a separate component of stockholders' equity. There are no restrictions on transfers of funds from the U.K.

Efforts are continuing to expand the services of Acxiom U.K. to customers in Europe and the Asia Pacific region. Management believes that the market for the Company's services in such locations is largely untapped. To date the Company has had no significant revenues or operations outside of the United States and the United Kingdom.

As noted in footnote 11 to the consolidated financial statements, the Company's United Kingdom operations earned profits of $1.5 million in fiscal 1998 and $1 million in fiscal 1997, and are expected to continue to show profits in the future. The U.K. operations reflected in the footnote include the International Division, with 1998 pretax earnings of $3 million, up 77% from 1997, offset by losses in the U.K. and Netherlands operations of DMI which are included in the Data Products Division. The combined U.K. operations sustained losses of $399,000 in 1996.

Effective March 31, 1994, the Company sold substantially all of the assets of its former Acxiom Mailing Services operation to MorCom, Inc. In June 1996, MorCom ceased operations. During 1997, the Company established valuation reserves for the remaining receivables under the sale agreement. The Company also obtained title to and sold a portion of the property related to the mortgage note, receiving proceeds of $949,000. During 1998, the Company sold the two remaining parcels of property which had been used by the Acxiom Mailing Services unit. The aggregate proceeds were $2.3 million resulting in a gain on disposal of $105,000 which is included in other income.

Effective August 22, 1997, the Company sold certain assets of its Pro CD subsidiary to ABI. ABI acquired the retail and direct marketing operations of Pro CD, along with compiled telephone book data for aggregate cash proceeds of $18 million. In conjunction with the sale to ABI, the Company also recorded certain valuation and contingency reserves. Included in other income is the gain on disposal related to this transaction of $855,000.

The Financial Accounting Standards Board has issued Statements No. 130, "Reporting Comprehensive Income," No. 131, "Disclosures about Segments of an Enterprise and Related Information," and No. 132, "Employers' disclosures about Pensions and Other Postretirement Benefits." Each of these statements is required to be adopted by the Company in fiscal 1999. Statement No. 130 will require the Company to report comprehensive income, as defined in the statement, in a financial statement that is displayed with the same prominence as other financial statements. Management does not expect any significant impact to the financial statements from this additional disclosure requirement. Statement No. 131 will require the Company to report additional information about business segments than what has historically been reported. The statement will require the Company to report additional information about these business segments and to reconcile the segment information to the consolidated financial statements. Management intends to present this segment information using the operating divisions into which it is currently organized. Other than these additional disclosure requirements, the Company does not expect any significant impact to the financial statements. Statement No. 132 revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. Management does not expect any material impact from the adoption of this statement.

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants has issued Statement of Position ("SOP") 98-4, "Deferral of the Effective Date of a Provision of SOP 97-2, Software Revenue Recognition." SOP 97-2 is effective for fiscal year 1999 and provides guidance on recognizing revenue on software transactions. In software transactions that include multiple elements, SOP 97-2 requires the fee to be allocated to the various elements based on vendor-specific objective evidence of the fair values of the elements, and provides guidance on how to arrive at vendor-specific objective evidence. SOP 98-4 defers until fiscal 2000 the effective date of the provisions of SOP 97-2 that limit what constitutes vendor-specific objective evidence. All other provisions of SOP 97-2 are effective for fiscal year 1999. The Company intends to follow the revenue recognition requirements of SOP 97-2 that are currently effective and anticipates that AcSEC will issue additional guidance on what constitutes vendor-specific objective evidence within the next year. The Company does not expect that the effect of implementing this SOP will be material.

AcSEC has also issued SOP 98-5, "Reporting on the Costs of Start-up Activities." SOP 98-5 is effective for fiscal year 2000 and requires that the cost of start-up activities be expensed when incurred. The Company does not expect that the effect of implementing this SOP will be material.

Outlook

Certain statements in this Annual Report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. 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, regulatory matters, growth opportunities and growth rates, acquisition and divestiture opportunities, and other similar forecasts and statements of expectation. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and "should," and variations of these words and similar expressions, are intended to identify these forward-looking statements. Such forward-looking statements are not guarantees of future performance. They involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Representative examples of such factors are discussed in more detail in the Company's Annual Report on Form 10K and include, among other things, the possible adoption of legislation or industry regulation concerning certain aspects of the Company's business; the removal of data sources and/or marketing lists from the Company; the ability of the Company to retain customers who are not under long-term contracts with the Company; technology challenges; year 2000 software issues; the risk of damage to the Company's data centers or interruptions in the Company's telecommunications links; acquisition integration; the effects of postal rate increases; and other market factors. See "Additional Information Regarding Forward-looking Statements" in the Company's Annual Report on Form 10-K.

The Company believes that existing customer industries (direct marketing, financial services, insurance, information and communication services, and media/publishing) all continue to offer good growth potential. In general, there is an increased emphasis on one-to-one marketing in businesses which the Company believes will increase demand for the Company's data content and services both in the U.S. and worldwide. The Company continues to explore uses of its data and services beyond marketing applications and has had some success in developing applications in the insurance underwriting area. At the same time, the Company is also focusing on industries such as retail, pharmaceuticals, telecommunications, high tech, entertainment, packaged goods, and utilities as strong growth opportunities. In addition, the Company also believes there is strong growth potential beyond the Fortune 1000 companies that it has traditionally served into medium-sized businesses and divisions of large corporations, as well as the small office/home office marketplace. As a result of improved delivery systems via the Acxiom Data Network℠ ("ADN"), announced in February, 1998, these markets are expected to become cost efficient for the Company to deliver portions of its products and services. The ADN will link the customer's data to the Company's enhancement database via the internet from the customer's desktop. It is anticipated that the ADN will expand the marketplace for the Company's data products to customers smaller than the Fortune 1000. The Company also believes that the ADN should dramatically cut costs in maintaining and updating data warehouses for current customers. In addition, the Company has developed relationships with third party database and decision support system providers to promote alternate channels of distribution for the Company's products and services.

The Company believes that operating margins will continue to improve primarily as a result of implementing the ADN, leveraging the Company's data content resources, improving internal processes, and increasing the profitability of the Company's international operations.

The Company currently expects its effective tax rate to be 37-39% for 1999. This estimate is based on current tax law and current estimates of earnings, and is subject to change.

Consolidated Balance Sheets

March 31, 1998 and 1997

(Dollars in thousands)	1998	1997
Assets		
Current assets:		
Cash and cash equivalents	$ 5,675	$ 2,721
Trade accounts receivable, net	86,360	70,636
Refundable income taxes	—	1,809
Other current assets (note 7)	22,517	12,306
Total current assets	114,552	87,472
Property and equipment, net of accumulated depreciation and amortization (notes 3 and 4)	130,554	116,171
Software, net of accumulated amortization of $11,472 in 1998 and $11,330 in 1997 (note 2)	24,143	18,627
Excess of cost over fair value of net assets acquired, net of accumulated amortization of $7,753 in 1998 and $4,924 in 1997 (note 13)	54,002	38,297
Other assets	71,059	39,101
	$394,310	$299,668
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt (note 4)	3,979	4,081
Trade accounts payable	18,448	15,323
Accrued expenses:		
Payroll	14,950	7,519
Other	17,492	8,667
Deferred revenue	11,197	3,537
Income taxes	2,234	—
Total current liabilities	68,300	39,127
Long-term debt, excluding current installments (note 4)	99,917	87,120
Deferred income taxes (note 7)	25,965	17,324
Stockholders' equity (notes 4, 6, 7 and 13):		
Common stock	5,321	5,274
Additional paid-in capital	68,977	61,322
Retained earnings	127,335	91,738
Foreign currency translation adjustment	676	278
Treasury stock, at cost	(2,181)	(2,515)
Total stockholders' equity	200,128	156,097
Commitments and contingencies (notes 4, 5, 8, 9 and 12)		
	$394,310	$299,668

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

Years ended March 31, 1998, 1997 and 1996

(Dollars in thousands, except per share amounts)	1998	1997	1996
Revenue (note 10)	$465,065	$402,016	$269,902
Operating costs and expenses (notes 2, 5, 8 and 9):			
Salaries and benefits	173,925	145,038	98,075
Computer, communications and other equipment	60,858	58,552	40,972
Data costs	86,483	76,282	63,442
Other operating costs and expenses	84,354	72,817	36,696
Total operating costs and expenses	405,620	352,689	239,185
Income from operations	59,445	49,327	30,717
Other income (expense):			
Interest expense	(5,956)	(3,903)	(1,863)
Other, net (note 14)	3,014	(1,386)	542
	(2,942)	(5,289)	(1,321)
Earnings before income taxes	56,503	44,038	29,396
Income taxes (note 7)	20,906	16,526	11,173
Net earnings	$ 35,597	$ 27,512	$ 18,223
Earnings per share:			
Basic	$.68	$.54	$.39
Diluted	$.60	$.47	$.35

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Years ended March 31, 1998, 1997 and 1996

	Common stock					Treasury stock		
(Dollars in thousands)	Number of shares	Amount	Additional paid-in capital	Retained earnings	Foreign currency translation adjustment	Number of shares	Amount	Total stockholders' equity (note 6)
Balances at March 31, 1995	46,152,582	$4,615	$44,186	$ 50,776	$ 7	(1,311,570)	$(2,407)	$ 97,177
DataQuick merger (note 13)	1,969,678	197	5,113	447	—	—	—	5,757
Retirement of DataQuick common stock prior to merger	—	—	(1,010)	—	—	—	—	(1,010)
Sale of DataQuick common stock prior to merger	—	—	190	—	—	—	—	190
DataQuick dividends prior to merger	—	—	—	(468)	—	—	—	(468)
Sale of common stock	562,794	56	2,063	—	—	—	—	2,119
Tax benefit of stock options exercised (note 7)	—	—	656	—	—	—	—	656
Employee stock awards and shares issued to employee benefit plans, net of treasury shares repurchased	13,356	2	881	—	—	69,328	84	967
Translation adjustment	—	—	—	—	(870)	—	—	(870)
Net earnings	—	—	—	18,223	—	—	—	18,223
Balances at March 31, 1996	48,698,410	4,870	52,079	68,978	(863)	(1,242,242)	(2,323)	122,741
Pro CD merger (note 13)	3,313,324	331	2,647	(4,752)	—	—	—	(1,774)
Sale of common stock	724,164	73	3,553	—	—	—	—	3,626
Tax benefit of stock options exercised (note 7)	—	—	1,684	—	—	—	—	1,684
Employee stock awards and shares issued to employee benefit plans, net of treasury shares repurchased	—	—	1,359	—	—	145,912	(192)	1,167
Translation adjustment	—	—	—	—	1,141	—	—	1,141
Net earnings	—	—	—	27,512	—	—	—	27,512
Balances at March 31, 1997	52,735,898	5,274	61,322	91,738	278	(1,096,330)	(2,515)	156,097
Sale of common stock	**411,411**	**41**	**3,640**	**—**	**—**	**—**	**—**	**3,681**
Tax benefit of stock options exercised (note 7)	**—**	**—**	**1,467**	**—**	**—**	**—**	**—**	**1,467**
Employee stock awards and shares issued to employee benefit plans, net of treasury shares repurchased	**57,529**	**6**	**2,548**	**—**	**—**	**259,410**	**334**	**2,888**
Translation adjustment	**—**	**—**	**—**	**—**	**398**	**—**	**—**	**398**
Net earnings	**—**	**—**	**—**	**35,597**	**—**	**—**	**—**	**35,597**
Balances at March 31, 1998	**53,204,838**	**$5,321**	**$68,977**	**$127,335**	**$ 676**	**(836,920)**	**$(2,181)**	**$200,128**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 1998, 1997 and 1996

(Dollars in thousands)	1998	1997	1996
Cash flows from operating activities:			
Net earnings	**$ 35,597**	$ 27,512	$ 18,223
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	**40,746**	33,244	21,602
Loss (gain) on disposal or impairment of assets	**(960)**	2,412	49
Provision for returns and doubtful accounts	**3,090**	5,530	149
Deferred income taxes	**8,917**	5,776	3,434
Tax benefit of stock options exercised	**1,467**	1,684	656
Changes in operating assets and liabilities:			
Accounts receivable	**(17,090)**	(21,972)	(4,092)
Other assets	**(29,029)**	(14,669)	(5,173)
Accounts payable and other liabilities	**21,455**	(4,432)	4,459
Net cash provided by operating activities	**64,193**	35,085	39,307
Cash flows from investing activities:			
Disposition of assets	**15,310**	2,385	402
Cash received in merger	**—**	21	1,624
Development of software	**(13,319)**	(6,725)	(3,944)
Capital expenditures	**(55,834)**	(59,784)	(39,021)
Investments in joint ventures	**(6,072)**	—	—
Net cash paid in acquisitions (note 13)	**(18,791)**	—	(5,914)
Net cash used in investing activities	**(78,706)**	(64,103)	(46,853)
Cash flows from financing activities:			
Proceeds from debt	**14,991**	39,459	11,995
Payments of debt	**(4,095)**	(15,982)	(4,897)
Sale of common stock	**6,569**	4,793	2,309
DataQuick pre-merger retirement of common stock	**—**	—	(1,010)
DataQuick pre-merger dividends	**—**	—	(468)
Net cash provided by financing activities	**17,465**	28,270	7,929
Effect of exchange rate changes on cash	**2**	—	(63)
Net increase (decrease) in cash and cash equivalents	**2,954**	(748)	320
Cash and cash equivalents at beginning of year	**2,721**	3,469	3,149
Cash and cash equivalents at end of year	**$ 5,675**	$ 2,721	$ 3,469
Supplemental cash flow information:			
Convertible debt issued in acquisition (note 13)	**$ —**	$ 25,000	$ —
Cash paid during the year for:			
Interest	**5,232**	3,210	2,214
Income taxes	**6,477**	9,360	8,660

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

March 31, 1998, 1997 and 1996

(1) Summary of Significant Accounting Policies

(a) Nature of Operations

The Company provides information management technology and other related services, primarily for marketing applications. Operating units of the Company provide list services, data warehouse services, data and information products, fulfillment services, computerized list, postal and database services, and outsourcing and facilities management services primarily in the United States (U.S.) and United Kingdom (U.K.), along with limited activities in Canada, Netherlands and Asia.

(b) Consolidation Policy

The consolidated financial statements include the accounts of Acxiom Corporation and its subsidiaries ("Company"). All significant intercompany balances and transactions have been eliminated in consolidation. Investments in 20% to 50% owned entities are accounted for using the equity method.

(c) Use of Estimates

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 consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(d) Accounts Receivable

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of trade receivables. All of the Company's receivables are from a large number of customers. Accordingly, the Company's credit risk is affected by general economic conditions. Although the Company has several large individual customers, concentrations of credit risk are limited because of the diversity of the Company's customers.

Trade accounts receivable are presented net of allowances for doubtful accounts and credits of $3.3 million and $4.3 million in 1998 and 1997, respectively.

(e) Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are calculated on the straight-line method over the estimated useful lives of the assets as follows: buildings and improvements, 5-30 years; office furniture and equipment, 3-10 years; and data processing equipment, 2-10 years.

Property held under capitalized lease arrangements is included in property and equipment, and the associated liabilities are included with long-term debt. Property and equipment taken out of service and held for sale is recorded at net realizable value and depreciation is ceased.

(f) Software and Research and Development Costs

Capitalized and purchased software costs are amortized on a straight-line basis over the remaining estimated economic life of the product, or the amortization that would be recorded by using the ratio of gross revenues for a product to total current and anticipated future gross revenues for that product, whichever is greater. Research and development costs incurred prior to establishing technological feasibility of software products are charged to operations as incurred.

(g) Excess of Cost Over Fair Value of Net Assets Acquired

The excess of acquisition costs over the fair values of net assets acquired in business combinations treated as purchase transactions ("goodwill") is being amortized on a straight-line basis over 15 to 25 years from acquisition dates. The Company periodically evaluates the existence of goodwill impairment on the basis of whether the goodwill is fully recoverable from the projected, undiscounted net cash flows of the related business unit. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

(h) Revenue Recognition

Revenues from the production and delivery of direct marketing lists and enhancement data are recognized when shipped. Revenues from data warehouses and outsourcing and facilities management services are recognized when the services are performed. Costs incurred in connection with the conversion phase of outsourcing and facilities management contracts are deferred and amortized over the life of the contract. Revenues from software licenses are recognized primarily when the software is installed or when the Company fulfills its obligations under the sales contract.

The Company recognizes revenue from long-term contracts using the percentage-of-completion method, based on performance milestones specified in the contract where such milestones fairly reflect progress toward contract completion. In other instances, progress toward completion is based on individual contract costs incurred to date compared with total estimated contract costs. Billed but unearned portions of revenues are reported as deferred revenues.

Included in other assets are unamortized conversion costs in the amount of $25.0 million and $18.1 million as of March 31, 1998 and 1997, respectively. Noncurrent receivables from software license, data, and equipment sales are also included in other assets in the amount of $20.3 million and $9.6 million as of March 31, 1998 and 1997, respectively. The current portion of such receivables is included in other current assets in the amount of $9.5 million and $2.9 million as of March 31, 1998 and 1997, respectively.

(i) Income Taxes

The Company and its domestic subsidiaries file a consolidated Federal income tax return. The Company's foreign subsidiaries file separate income tax returns in the countries in which their operations are based.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(j) Foreign Currency Translation

The balance sheets of the Company's foreign subsidiaries are translated at year-end rates of exchange, and the statements of earnings are translated at the weighted average exchange rate for the period. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of stockholders' equity.

(k) Earnings Per Share

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share" during the year ended March 31, 1998. Below is the calculation and reconciliation of the numerator and denominator of basic and diluted earnings per share (in thousands, except per share amounts):

	1998	1997	1996
Basic earnings per share:			
Numerator (net earnings)	$35,597	$27,512	$18,223
Denominator (weighted average shares outstanding)	52,044	51,172	47,057
Earnings per share	$.68	$.54	$.39
Diluted earnings per share:			
Numerator:			
Net earnings	$35,597	$27,512	$18,223
Interest expense on convertible debt (net of tax effect)	445	445	—
	$36,042	$27,957	$18,223
Denominator:			
Weighted average shares outstanding	52,044	51,172	47,057
Effect of common stock options	2,628	2,967	2,726
Effect of common stock warrant	3,015	3,004	2,295
Convertible debt	2,000	2,000	—
	59,687	59,143	52,078
Earnings per share	$.60	$.47	$.35

Options to purchase shares of common stock that were outstanding during 1998, 1997 and 1996 but were not included in the computation of diluted earnings per share because the option exercise price was greater than the average market price of the common shares are shown below.

	1998	1997	1996
Number of shares under option	252,536	1,485,569	1,798,828
Range of exercise prices	$26.06-$35.92	$18.61-$35.00	$12.25-$24.81

(l) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

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 future net cash flows expected to be generated by the asset. If such assets 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.

(m) Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(n) Reclassifications

To conform to the 1998 presentation, certain accounts for 1997 and 1996 have been reclassified. The reclassifications had no effect on net earnings.

(2) Software and Research and Development Costs

The Company recorded amortization expense related to internally developed computer software of $5.0 million, $5.4 million and $3.1 million in 1998, 1997 and 1996, respectively. Additionally, research and development costs of $10.0 million, $10.5 million and $6.4 million were charged to operations during 1998, 1997 and 1996, respectively.

(3) Property and Equipment

Property and equipment is summarized as follows (dollars in thousands):

	1998	1997
Land	$ 2,309	$ 2,238
Buildings and improvements	57,747	56,825
Office furniture and equipment	18,265	13,484
Data processing equipment	156,149	126,739
	234,470	199,286
Less accumulated depreciation and amortization	103,916	83,115
	$130,554	$116,171

(4) Long-Term Debt

Long-term debt consists of the following (dollars in thousands):

	1998	1997
Unsecured revolving credit agreement	$ 36,445	$21,454
6.92% Senior notes due March 30, 2007, payable in annual installments of $4,286 commencing March 30, 2001; interest is payable semi-annually	30,000	30,000
3.12% Convertible note, interest and principal due April 30, 1999; partially collateralized by letter of credit; convertible at maturity into two million shares of common stock (note 13)	25,000	25,000
9.75% Senior notes, due May 1, 2000, payable in annual installments of $2,143 each May 1; interest is payable semi-annually	6,429	8,571
Other	6,022	6,176
Total long-term debt	103,896	91,201
Less current installments	3,979	4,081
Long-term debt, excluding current installments	$ 99,917	$87,120

The unsecured revolving credit agreement, which expires January 31, 2003 provides for revolving loans and letters of credit in amounts of up to $125 million. The terms of the credit agreement provide for interest at the prime rate (or, at other alternative market rates at the Company's option). At March 31, 1998, the effective rate was 7.175%. The agreement requires a commitment fee equal to 3/16 of 1% on the average unused portion of the loan. A letter of credit in the amount of $6.6 million is outstanding in connection with an acquisition (see note 13), leaving $118.4 million available for revolving loans. The Company also has another unsecured line of credit amounting to $1.5 million of which none was outstanding at March 31, 1998 or 1997. The other unsecured line expires July 30, 1998 and bears interest at the prime rate less 1/2 of 1%.

Under the terms of certain of the above borrowings, the Company is required to maintain certain tangible net worth levels and working capital, debt-to-equity and debt service coverage ratios. At March 31, 1998, the Company was in compliance with all such financial requirements. The aggregate maturities of long-term debt for the five years ending March 31, 2003 are as follows: 1999, $4.0 million; 2000, $28.0 million; 2001, $7.1 million; 2002, $4.8 million; and 2003, $43.0 million.

(5) Leases

The Company leases data processing equipment, office furniture and equipment, land and office space under noncancellable operating leases. Future minimum lease payments under noncancellable operating leases for the five years ending March 31, 2003 are as follows: 1999, $4.6 million; 2000, $4.1 million; 2001, $3.4 million; 2002, $1.9 million; and 2003, $1.8 million.

Total rental expense on operating leases was $5.9 million, $6.7 million and $3.7 million for the years ended March 31, 1998, 1997 and 1996, respectively.

(6) Stockholders' Equity

The Company has authorized 200 million shares of $.10 par value common stock and 1 million shares of authorized but unissued $1.00 par value preferred stock. The Board of Directors of the Company may designate the relative rights and preferences of the preferred stock when and if issued. Such rights and preferences could include liquidation preferences, redemption rights, voting rights and dividends and the shares could be issued in multiple series with different rights and preferences. The Company currently has no plans for the issuance of any shares of preferred stock.

In connection with its data center management agreement ("Agreement") entered into in August, 1992 with Trans Union Corporation ("Trans Union"), the Company issued a warrant, which expires on August 31, 2000 and entitles Trans Union to acquire up to 4 million additional shares of newly-issued common stock. The exercise price for the warrant stock is $3.06 per share through August 31, 1998 and increases $.25 per share in each of the two years subsequent to August 31, 1998. Trans Union is precluded from exercising the warrant to the extent that the shares acquired thereunder would cause its percentage ownership of the Company's common stock acquired pursuant to the Agreement to exceed 10% of the Company's then issued and outstanding common stock. Based on shares outstanding at March 31, 1998, Trans Union would be entitled to purchase approximately 3.7 million total shares under the warrant.

The Company has for its U.S. employees a Key Employee Stock Option Plan ("Plan") for which 15.2 million shares of the Company's common stock have been reserved. The Company has for its U.K. employees a U.K. Share Option Scheme ("Scheme") for which 1.6 million shares of the Company's common stock have been reserved. These plans provide that the option price, as determined by the Board of Directors, will be at least the fair market value at the time of the grant. The term of nonqualified options is also determined by the Board of Directors. Incentive options granted under the plans must be exercised within 10 years after the date of the option. At March 31, 1998, 2,161,461 shares and 824,163 shares are available for future grants under the Plan and the Scheme, respectively.

Activity in stock options was as follows:

	Number of shares	Weighted average price per share	Number of shares exercisable
Outstanding at March 31, 1995	4,928,696	$ 4.68	1,715,966
Granted	1,560,556	19.12	
DataQuick acquisition (note 13)	1,616,740	2.93	
Exercised	(371,046)	2.49	
Terminated	(6,000)	1.42	
Outstanding at March 31, 1996	7,728,946	7.88	3,467,728
Granted	454,251	25.02	
Pro CD acquisition (note 13)	294,132	1.76	
Exercised	(662,117)	2.36	
Terminated	(93,255)	7.29	
Outstanding at March 31, 1997	7,721,957	9.34	3,652,744
Granted	579,336	16.48	
Exercised	(412,951)	4.87	
Terminated	(116,390)	13.61	
Outstanding at March 31, 1998	**7,771,952**	**$10.05**	**4,432,667**

The per share weighted-average fair value of stock options granted during fiscal 1998, 1997 and 1996 was $9.91, $8.61 and $4.14, respectively, on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: Dividend yield of 0% for 1998, 1997 and 1996; risk-free interest rate of 6.79% in 1998, 6.71% in 1997 and 6.16% in 1996; expected option life of 10 years for 1998, 1997 and 1996; and expected volatility of 38.69% in 1998, 34.85% in 1997 and 28.53% in 1996.

Following is a summary of stock options outstanding as of March 31, 1998:

	Options outstanding			Options exercisable	
Range of exercise prices	Options outstanding	Weighted average remaining contractual life	Weighted average exercise per share	Options exercisable	Weighted average exercise per share
$ 1.38-$ 2.54	1,413,970	6.72 years	$ 2.13	1,270,298	$ 2.17
$ 2.56-$ 4.69	1,673,111	5.86 years	$ 3.78	1,146,878	$ 3.75
$ 5.38-$ 6.25	1,500,635	5.12 years	$ 6.11	891,683	$ 6.04
$ 7.43-$15.70	1,473,862	9.28 years	$13.20	779,027	$14.05
$15.75-$24.81	1,440,498	8.68 years	$22.22	318,186	$22.27
$25.34-$35.92	269,876	12.82 years	$31.00	26,595	$30.96
	7,771,952	7.28 years	$10.05	4,432,667	$ 7.06

The Company applies the provisions of Accounting Principles Board Opinion No. 25 and related interpretations in accounting for the stock based compensation plans. Accordingly, no compensation cost has been recognized by the Company in the accompanying 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 SFAS No. 123, the Company's net earnings would have been reduced to the following pro forma amounts for the years ended March 31 (dollars in thousands, except per share amounts):

		1998	1997	1996
Net earnings	As reported	**$35,597**	$27,512	$18,223
	Pro forma	**31,707**	26,953	18,041
Basic earnings per share	As reported	**.68**	.54	.39
	Pro forma	**.61**	.53	.38
Diluted earnings per share	As reported	**.60**	.47	.35
	Pro forma	**.53**	.46	.35

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 9 years and compensation cost for options granted prior to April 1, 1995 is not considered.

The Company maintains an employee stock purchase plan which provides for the purchase of shares of common stock at 85% of the market price. There were 125,151, 110,332 and 190,470 shares purchased under the plans during the years ended March 31, 1998, 1997 and 1996, respectively.

(7) Income Taxes

Total income tax expense was allocated as follows (dollars in thousands):

	1998	1997	1996
Income from operations	**$20,906**	$16,526	$11,173
Stockholders' equity, for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	**(1,467)**	(1,684)	(656)
	$19,439	$14,842	$10,517

Income tax expense attributable to earnings from operations consists of (dollars in thousands):

	1998	1997	1996
Current expense:			
Federal	$ 9,736	$ 9,884	$ 6,720
Foreign	1,206	83	—
State	1,047	783	1,019
	11,989	10,750	7,739
Deferred expense:			
Federal	7,169	3,898	2,706
Foreign	23	687	161
State	1,725	1,191	567
	8,917	5,776	3,434
Total tax expense	$20,906	$16,526	$11,173

The actual income tax expense attributable to earnings from operations differs from the expected tax expense (computed by applying the U.S. Federal corporate tax rate of 35% to earnings before income taxes) as follows (dollars in thousands):

	1998	1997	1996
Computed expected tax expense	$19,776	$15,413	$10,289
Increase (reduction) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	1,802	1,283	1,031
Research and experimentation credits	(715)	(683)	(800)
Other	43	513	653
	$20,906	$16,526	$11,173

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at March 31, 1998 and 1997 are presented below (dollars in thousands).

	1998	1997
Deferred tax assets:		
Accrued expenses not currently deductible for tax purposes	$ 1,616	$ 1,407
Investments, principally due to differences in basis for tax and financial reporting purposes	676	327
Net operating loss carryforwards	—	1,208
Other	417	903
Valuation allowance	—	(1,208)
Total deferred tax assets	2,709	2,637
Deferred tax liabilities:		
Property and equipment, principally due to differences in depreciation	(6,536)	(6,390)
Intangible assets, principally due to differences in amortization	(2,029)	(482)
Capitalized software and other costs expensed as incurred for tax purposes	(16,231)	(10,519)
Installment sale gains for tax purposes	(1,843)	(259)
Total deferred tax liabilities	(26,639)	(17,650)
Net deferred tax liability	$(23,930)	$(15,013)

The valuation allowance for deferred tax assets as of March 31, 1997 was $1.2 million. The net change in the total valuation allowance for the years ended March 31, 1998 and 1997 was a decrease of $1.2 million and an increase of $880,000, respectively. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the Company's history of substantial profitability and taxable income and its utilization of tax planning strategies, management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of any valuation allowances. Included in other current assets are deferred tax assets of $2.0 million and $2.3 million at March 31, 1998 and 1997, respectively.

(8) Related Party Transactions

The Company leases certain equipment from a business partially owned by an officer. Rent expense under these leases was approximately $797,000 during the years ended March 31, 1998 and 1997, respectively, and $371,000 during the year ended March 31, 1996. Under the terms of the lease in effect at March 31, 1998 the Company will make monthly lease payments of $66,000 through December, 2001. The Company has agreed to pay the difference, if any, between the sales price of the equipment and 70 percent of the lessor's related loan balance (approximately $5.4 million at March 31, 1998) should the Company elect to exercise its early termination rights or not extend the lease beyond its initial five year term and the lessor sells the equipment as a result thereof.

(9) Retirement Plans

The Company has a retirement savings plan which covers substantially all domestic employees. The Company also offers a supplemental non-qualified deferred compensation plan for certain management employees. The Company matches 50% of the employee's salary deferred contributions under both plans up to 6% annually and may contribute additional amounts to the plans from the Company's earnings at the discretion of the Board of Directors. Company contributions amounted to approximately $1.9 million, $1.5 million and $.8 million in 1998, 1997 and 1996, respectively.

(10) Major Customers

In 1998, 1997 and 1996, the Company had two major customers who accounted for more than 10% of revenue. Allstate Insurance Company accounted for revenue of $74.7 million (16.1%), $67.7 million (16.8%), and $55.8 million (20.7%) in 1998, 1997 and 1996, respectively, and Trans Union accounted for revenue of $54.9 million (11.8%), $56.6 million (14.1%) and $42.0 million (15.5%) in 1998, 1997 and 1996, respectively.

(11) Foreign Operations

The following table shows financial information by geographic area for the years 1998, 1997 and 1996 (dollars in thousands).

	United States	United Kingdom	Consolidated
1998:			
Revenue	$430,419	$34,646	$465,065
Earnings before income taxes	54,061	2,442	56,503
Net earnings	34,059	1,538	35,597
Total assets	364,854	29,456	394,310
Total tangible assets	318,560	21,748	340,308
Total liabilities	182,667	11,515	194,182
Total equity	182,187	17,941	200,128
1997:			
Revenue	$ 373,596	$ 28,420	$ 402,016
Earnings before income taxes	42,365	1,673	44,038
Net earnings	26,466	1,046	27,512
Total assets	276,832	22,836	299,668
Total tangible assets	246,262	15,109	261,371
Total liabilities	135,039	8,532	143,571
Total equity	141,793	14,304	156,097
1996:			
Revenue	$ 252,190	$ 17,712	$ 269,902
Earnings (loss) before income taxes	29,634	(238)	29,396
Net earnings (loss)	18,622	(399)	18,223
Total assets	176,321	17,728	194,049
Total tangible assets	169,971	10,096	180,067
Total liabilities	65,172	6,136	71,308
Total equity	111,149	11,592	122,741

(12) Contingencies

The Company is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or its expected future consolidated results of operations.

(13) Acquisitions

On August 25, 1995, the Company acquired all of the outstanding capital stock of DataQuick Information Systems (formerly an "S" Corporation) and DQ Investment Corporation (collectively, "DataQuick"). The Company exchanged 1,969,678 shares of its common stock for all of the outstanding shares of capital stock of DataQuick. Additionally, the Company assumed all of the currently outstanding options granted under DataQuick's stock option plans, with the result that 1,616,740 shares of the Company's common stock became subject to issuance upon exercise of such options (see note 6). The acquisition was accounted for as a pooling-of-interests.

DataQuick, headquartered in San Diego, California, provides real property information to support a broad range of applications including marketing, appraisal, real estate, banking, mortgage and insurance. This information is distributed on-line and via CD-ROM, list services, and microfiche.

The stockholders' equity and operations of DataQuick were not material in relation to those of the Company. As such, the Company recorded the combination by restating stockholders' equity as of April 1, 1995, without restating prior years' financial statements to reflect the pooling-of-interests combination. DataQuick's net assets as of April 1, 1995 totaled $5.8 million. The statements of earnings for the years ended March 31, 1998, 1997 and 1996 include the results of DataQuick for the entire periods presented. Included in the statement of earnings for 1996 are revenues of $8.0 million and earnings before income taxes of $79,000 for DataQuick for the period from April 1, 1995 to August 25, 1995.

On April 9, 1996, the Company issued 3,313,324 shares of its common stock for all of the outstanding common stock and common stock options of Pro CD, Inc., ("Pro CD"). Headquartered in Danvers, Massachusetts, Pro CD is a publisher of reference software on CD-ROM. The business combination was accounted for as a pooling-of-interests. The stockholders' equity and operations of Pro CD were not material in relation to those of the Company. As such, the Company recorded the combination by restating stockholders' equity as of April 1, 1996, without restating prior years' financial statements to reflect the pooling-of-interests. At April 1, 1996 Pro CD's liabilities exceeded its assets by $1.8 million.

Also in April, 1996, the Company acquired the assets of Direct Media/DMI, Inc. ("DMI") for $25 million and the assumption of certain liabilities of DMI. The $25 million purchase price is payable in three years, is partially collateralized by a letter of credit (see note 4), and may, at DMI's option, be paid in two million shares of Acxiom common stock in lieu of cash plus accrued interest. Headquartered in Greenwich, Connecticut, DMI provides list brokerage, management and consulting services to business-to-business and consumer list owners and mailers. At April 1, 1996 the liabilities assumed by the Company exceeded the fair value of the net assets acquired from DMI by approximately $1.0 million. The resulting excess of purchase price over fair value of net assets acquired is being amortized over its estimated economic life of 20 years. The acquisition has been accounted for as a purchase, and accordingly, the results of operations of DMI are included in the consolidated results of operations from the date of its acquisition.

The purchase price for DMI has been allocated as follows (dollars in thousands):

Trade accounts receivable	$ 7,558
Property and equipment	2,010
Software	3,500
Excess of cost over fair value of net assets acquired	25,993
Other assets	840
Short-term note payable to bank	$(11,594)
Accounts payable and other liabilities	(3,020)
Long-term debt	(287)
	$ 25,000

Effective October 1, 1997, the Company acquired 100% ownership of MultiNational Concepts, Ltd. ("MultiNational") and Catalog Marketing Services, Inc. (d/b/a Shop the World by Mail), entities under common control (collectively "STW"). Total consideration was $4.6 million (net of cash acquired) and other cash consideration based on the future performance of STW. MultiNational, headquartered in Hoboken, New Jersey, is an international mailing list and database maintenance provider for consumer catalogers interested in developing foreign markets. Shop the World by Mail, headquartered in Sarasota, Florida, provides cooperative customer acquisition programs, and also produces an international catalog of catalogs whereby end-customers in over 60 countries can order catalogs from around the world.

Also effective October 1, 1997, the Company acquired Buckley Dement, L.P. and its affiliated company, KM Lists, Incorporated (collectively "Buckley Dement"). Buckley Dement, headquartered in Skokie, Illinois, provides list brokerage, list management, promotional mailing and fulfillment, and merchandise order processing to pharmaceutical, health care, and other commercial customers. Total consideration was $14.2 million (net of cash acquired) and other cash consideration based on the future performance of Buckley Dement.

Both the Buckley Dement and STW acquisitions are accounted for as purchases and their operating results are included with the Company's results beginning October 1, 1997. The purchase price for the two acquisitions exceeded the fair value of net assets acquired by $12.6 million and $5.2 million for Buckley Dement and STW, respectively. The resulting excess of cost over net assets acquired is being amortized over its estimated economic life of 20 years. The pro forma combined results of operations, assuming the acquisitions occurred at the beginning of the fiscal year, are not materially different than the historical results of operations reported.

(14) Dispositions

Effective August 22, 1997, the Company sold certain assets of its Pro CD subsidiary to a wholly-owned subsidiary of American Business Information, Inc. ("ABI"). ABI acquired the retail and direct marketing operations of Pro CD, along with compiled telephone book data for aggregate cash proceeds of $18.0 million, which included consideration for a compiled telephone book data license. The Company also entered into a data license agreement with ABI under which the Company will pay ABI $8.0 million over a two-year period, and a technology and data license agreement under which ABI will pay the Company $8.0 million over a two-year period. In conjunction with the sale to ABI, the Company also recorded certain valuation and contingency reserves. Included in other income is the gain on disposal related to this transaction of $855,000.

(15) Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents, trade receivables, short-term borrowings, and trade payables—The carrying amount approximates fair value because of the short maturity of these instruments.

Long-term debt—The interest rate on the revolving credit agreement is adjusted for changes in market rates and therefore the carrying value of the credit agreement approximates fair value. The estimated fair value of other long-term debt was determined based upon the present value of the expected cash flows considering expected maturities and using interest rates currently available to the Company for long-term borrowings with similar terms. At March 31, 1998 the estimated fair value of long-term debt approximates its carrying value.

(16) Selected Quarterly Financial Data (Unaudited)

The table below sets forth selected financial information for each quarter of the last two years (dollars in thousands, except per share amounts):

	1st quarter	2nd quarter	3rd quarter	4th quarter
1998:				
Revenue	**$100,327**	**$109,966**	**$120,692**	**$134,080**
Income from operations	**9,634**	**13,508**	**18,688**	**17,615**
Net earnings	**5,313**	**8,365**	**11,206**	**10,713**
Basic earnings per share	**.11**	**.16**	**.21**	**.20**
Diluted earnings per share	**.09**	**.14**	**.19**	**.18**
1997:				
Revenue	$ 93,953	$ 97,547	$104,534	$105,982
Income from operations	8,618	11,754	15,238	13,717
Net earnings	4,245	6,263	8,863	8,141
Basic earnings per share	.09	.12	.17	.16
Diluted earnings per share	.07	.11	.15	.14

Independent Auditors' Report

The Board of Directors and Stockholders
Acxiom Corporation:

We have audited the accompanying consolidated balance sheets of Acxiom Corporation and subsidiaries as of March 31, 1998 and 1997, and the related consolidated statements of earnings, stockholders' equity and cash flows for each of the years in the three-year period ended March 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Acxiom Corporation and subsidiaries as of March 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended March 31, 1998, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

KPMG Peat Marwick LLP
Little Rock, Arkansas
May 8, 1998

Corporate Leadership

Charles D. Morgan
Chairman and
Company Leader

Corporate Office

Rodger S. Kline
Operations

Jerry B. Adams
Marketing

Robert S. Bloom
Finance

Cindy K. Childers
Organizational
Development

Catherine L. Hughes
Legal

Acxiom Data Products Division

C. Alex Dietz
Division Leader

Walter E. Anderson
Group Leader

Don W. Barrett, Jr.
Group Leader

Stephen H. Brighton
Group Leader

Michael Ela
Group Leader

Donald P. Hinman
Group Leader

Charles C. Howland
Group Leader

Duncan S. McClain
Group Leader

Mark S. Theilken
Group Leader

Acxiom Alliances Division

James T. Womble
Division Leader

James W. Ivey
Group Leader

Thomas B. Walker, Jr.
Group Leader

Frank C. Wichlac
Group Leader

Paul M. Williams
Group Leader

Acxiom Services Division

Paul L. Zaffaroni
Division Leader

William K. Bruton
Group Leader

Jack B. Case
Group Leader

Alan W. Holland
Group Leader

Acxiom International Division

Jerry C.D. Ellis
Division Leader

Directors

Dr. Ann H. Die
President, Hendrix College

William T. Dillard II
President and
Chief Operating Officer
Dillard Department Stores, Inc.

Harry C. Gambill
President and
Chief Executive Officer
Trans Union Corporation

Rodger S. Kline
Operations Leader
Acxiom Corporation

Charles D. Morgan
Chairman of the Board
Acxiom Corporation

Robert A. Pritzker
President and
Chief Executive Officer
The Marmon Group, Inc.

Walter V. Smiley
President
Smiley Investment Corporation

James T. Womble
Division Leader
Acxiom Corporation

Market Information

Per share data is restated to reflect a stock split during fiscal 1997.

Stock Prices

The Company's Common Stock is traded on the national Market System of Nasdaq under the symbol "ACXM." The following table sets forth for the periods indicated the high and low closing sale prices of the Common Stock.

Fiscal 1998	High	Low
Fourth Quarter	**$\$25\frac{3}{4}$**	**$\$18\frac{3}{4}$**
Third Quarter	**$19\frac{1}{4}$**	**$14\frac{1}{8}$**
Second Quarter	**21**	**17**
First Quarter	**$20\frac{5}{8}$**	**$11\frac{1}{8}$**

Fiscal 1997	High	Low
Fourth Quarter	$\$24$	$\$14\frac{3}{8}$
Third Quarter	25	$18\frac{5}{8}$
Second Quarter	$20\frac{5}{8}$	$15\frac{7}{8}$
First Quarter	$17\frac{7}{8}$	$11\frac{15}{16}$

During the period beginning April 1, 1998, and ending May 13, 1998, the high closing sales price per share for the Company's Common Stock as reported by Nasdaq was $\$25\frac{5}{8}$ and the low closing sales price per share was $\$22\frac{1}{2}$. On May 13, 1998, the closing price per share was $\$24\frac{3}{8}$.

Shareholders of Record

The approximate number of shareholders of record of the Company's Common Stock as of May 13, 1998, was 1,617.

Dividends

The Company has never paid cash dividends on its Common Stock. The Company presently intends to retain earnings to provide funds for its business operations and for the expansion of its business. Thus, it does not anticipate paying cash dividends in the foreseeable future.

Corporate Information

A copy of the Company's latest Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, is available upon written request to the Chief Financial Officer, 301 Industrial Boulevard, P.O. Box 2000, Conway, Arkansas 72033-2000, or by calling (501) 336-1321.

Transfer Agent and Registrar:

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500

Auditors:

KPMG Peat Marwick LLP
200 W. Capitol
Little Rock, Arkansas 72201

Annual Meeting:

The Annual Meeting of Shareholders will be held at Acxiom Corporate Headquarters in Conway, Arkansas, August 5, 1998, at 10:00 a.m.

Designed and written by Robinson Kurtin Communications! (RKC!), New York, NY

Acxiom 1998 Excellence Awards

Alliances

Becky Barnhardt
Nancy Barr
Rob Becker
Stephanie Bittle
Jim Bowling
Timi Bryan
Melissa Burnett
Rod Calvin
Ash Campbell
Stephanie Ceccato
Doug Christiansen
Janeice Cox
Jim Crabb
Sharon Cragg
Brad Crain
Melissa Dillion
Tim Donar
Phyllis Echols
Mark Epperson
Sheryl Ferguson
Greg Freeman
Kathy Fuhler
Carl Gaines
Michael Griffin
Ted Hart
Brad Hartman
Terri Hatcher
Wes Hinesly
Tony Holland
Rick Houston
Carroll Hyatt
Ed Jacques
Mindy Keathley
Tim Keller
Susan Long
John Luallen
Yvette Mahan
Tammy Manso
Scott Massingill
Carmen McKenna
Bill Minner
Kevin Mitchell
Mike Moix
Yvonne Morgan
Tara Morley
Michael Needham
Sandy Parks
Leah Phelps
Tim Poole
Anne Porter
Tamra Porter
Greg Powers
Beverly Price
Deanna Rittman
Lisa Romine
Ria Rossini
Cindy Sawrie
Bruce Selvog
Don Sikes
Dan Singleton
Cheri Sisco
Thomas Smith
Larry Stricklen
Shelly Stubbs
Jay Turner
Dena Webb
Frank Widmeyer
James Wiles
Richard Wilson
Jeff Wingo
Tim Woods

Corporate

Jeff Pascoe

Data Products

Toni Abbot
Roberta Adkins
Bobbi Allsopp
Starlia Aubrey
Rusty Baxter
Lesley Bingham
Daniel Bohm
Cynthia Boucher
Beverly Brothers
Ruby Browers
Teresa Churchwell
Mark Clegg
Doug Clower
Kim Coffman
Cindy Cooper
Michael Corcoran
Patrick Corcoran
Robert Couch
Trung Doan
Mike Doud
Darlene Edgar
Bob Fahr
Robin Fehnel
Connie Ferguson
Paul Fowler
Adam Gadberry
Lanette Gicante
Karen Glenn
Katrina Hawkins
Lloyd Huett
Anna Jackson
Kim Johnston
Doug Jones
Nikki Krause
Ralph Liebetrau
Rosalind Maggart
Arturo Murillo
Wanda Newland
Rhonda Norvold
Beverly Perkins
Garron Richardson
Allen Rittman
Reid Rust
Shane Sanders
Stacey Schnick
Liz Schoening
Jeff Stovall
Chris Tackett
Jo Timmons
Tom Towler
Kristina Tran
Jason Valdez
Melissa Wallace
Mike Wallis
Susan Whittenburg
Brian Wiedower
Nancy Williams
Stephanie Yiu

Services

Tim Blake
Gena Brinkley
Ricky Buck
Robert Burks
Shannon Denison
John Finnell
Tom Gentry
Andrea Grippe
Wendy Harvill
Matt Hays
Stephanie Hiegel
Mark Hoggard
Benton Johnson
Jill Kelly
Emily Kelso
Michael Linz
Mike Longo
Michael McCann
Jon Montague
Linda Moore
David Nash
Mark Poole
Russ Reed
Joe Schmitz
Brent Smithson
Harvey Spurlock
Alan Stone
Marla Stratton
Jeff Sturdivant
Doug Temple
Ernie Thomas
John Ward
Karen Williams
Alvin Wortmann
Joel Young
Linda Young

Shared Services

Tammy Baker
Georganna Barnett
Jim Beistle
Laura Blake
Keri Bolden
Susan Bolden
Jim Briggler
Kelly Causey
Bobby Coker
Kim Edmonds
Billy Fulmer
Pam Hayes
Don Hensley
Chris Hoyt
Mark Hurley
Chuck Jarrell
Vanessa Kelley
Lisa Lentz
Tammy Lewis
Kevin Luck
Dianne McIntire
Todd Mitchell
Brian Murphy
Danny Myers
Jenny Newton
David Paglainite
Justin Parker
David Phillips
Andy Pool
Tim Raney
Billy Reynolds
Roxeann Reynolds
Gigi Rhea
Steve Richter
Susan Rittman
Nikki Ward
Don Welsh
Connie Wood

About the Company

Acxiom Corporation provides companies around the world with a wide spectrum of data products as well as data integration, data warehousing, market management, and list processing solutions. Headquartered in Conway, Arkansas, the company has locations throughout the United States as well as in Canada, the United Kingdom, France, the Netherlands, and Malaysia. Acxiom employs 3,600 associates worldwide and trades on the Nasdaq Stock Market under the symbol "ACXM."

ACXIOM®

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