

PERFICIENT INC  
Form S-3/A  
April 11, 2005

As filed with the Securities and Exchange Commission on April 11, 2005

Registration No. 333-123177

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Amendment No. 1 to**  
**Form S-3**  
**REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

**Perficient, Inc.**

*(Exact name of registrant as specified in its charter)*

**1120 South Capital of Texas Highway**  
**Building 3, Suite 220**  
**Austin, Texas 78746**  
**(512) 531-6000**

*(Address, including zip code, and telephone number, including area code of registrant's principal executive offices)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**74-2853258**

*(I.R.S. Employer  
Identification Number)*

**John T. McDonald**

**1120 South Capital of Texas Highway**  
**Building 3, Suite 220**  
**Austin, Texas 78746**  
**(512) 531-6000**  
**(512) 531-6011 (Fax)**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities, in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION DATED APRIL 11, 2005**

**PRELIMINARY PROSPECTUS**

**5,032,600 Shares  
Common Stock**

We are offering 4,250,000 shares of our common stock and the selling stockholders identified in this prospectus are offering 782,600 shares of our common stock. We will not receive any proceeds from the sale of the shares by the selling stockholders.

Our shares of common stock are listed on the Nasdaq National Market under the symbol PRFT. The last reported sale price of our common stock on the Nasdaq National Market on April 7, 2005 was \$7.10 per share.

**Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 7 of this prospectus.**

|  | Per Share | Total |
|--|-----------|-------|
| Public offering price                              | \$        | \$    |
| Underwriting discounts and commissions             | \$        | \$    |
| Proceeds, before expenses, to us                   | \$        | \$    |
| Proceeds, before expenses, to selling stockholders | \$        | \$    |

We and some of our existing stockholders have granted the underwriters a 30-day option to purchase up to 267,390 and 487,500 additional shares, respectively, of our common stock at the public offering price, less the underwriting discounts and the commissions, solely to cover over-allotments, if any. In the event the underwriters exercise their over-allotment option, we will not receive any of the proceeds from any shares sold by the selling stockholders. In the event the over-allotment option is exercised in part, the underwriters will purchase the additional shares from us and from the selling stockholders on a pro rata basis.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

We expect that the shares of our common stock will be ready for delivery to purchasers on or about \_\_\_\_\_, 2005.

**Friedman Billings Ramsey**

**Stifel, Nicolaus & Company  
Incorporated**

**Roth Capital Partners**

**Gilford Securities Incorporated**

The date of this prospectus is \_\_\_\_\_, 2005.

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You should rely only on the information contained or incorporated by reference in this prospectus. We, the selling stockholders and the underwriters have not authorized anyone to provide you with additional information or information different from that contained in this prospectus. We, the selling stockholders and the underwriters are not making an offer to sell these securities in any jurisdiction where any offer or sale is not permitted. You should assume that the information in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

## PROSPECTUS SUMMARY

*You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this prospectus and in the documents that we incorporate by reference into this prospectus. This prospectus may contain certain forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors.*

### **Perficient, Inc.**

We are a rapidly growing information technology consulting firm serving Global 2000 and midsize companies in the central United States. We help our clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. We design, build and deliver solutions using a core set of middleware software products developed by our partners. Our solutions enable our clients to operate a real-time enterprise that dynamically adapts business processes and the systems that support them to the changing demands of an increasingly global, Internet-driven and competitive marketplace.

We are expanding our business through a combination of organic growth and acquisitions. We believe that information technology consulting is a fragmented industry and that there are a substantial number of privately held information technology consulting firms in the central United States that can be acquired on financially accretive terms. We have a track record of successfully identifying, executing and integrating acquisitions that add strategic value to our business. Over the past five years, we have acquired and integrated seven privately held information technology consulting firms, three of which were acquired in 2004.

We are addressing a large and growing market. Gartner Dataquest, an independent market research firm, projects that growth in middleware software spending, and specifically the integration broker suites, enterprise portal services, application platform suites and message-oriented middleware in which we specialize, will outpace general software spending and increase from approximately \$4.33 billion in 2004 to \$6.67 billion in 2007, a compound annual growth rate of 15.5%. As companies increase spending on software, their overall spending on services typically also increases, often by a multiple of each dollar spent on software.

Our competitive strengths include:

*Domain Expertise.* Through our experience developing and delivering solutions for more than 380 Global 2000 and midsize companies, we have acquired significant domain expertise in a core set of eBusiness solutions and software platforms. These solutions include eBusiness infrastructure, enterprise portals, ecommerce platforms, ecustomer relationship management and supply chain Web enablement. The platforms on which these solutions are built include IBM WebSphere®, TIBCO® BusinessWorks and Microsoft®.NET.

*Delivery Model and Methodology.* We believe our significant expertise enables us to provide high-value solutions through small, expert project teams that deliver measurable results by working collaboratively with clients through a user-centered, technology-based and business-driven solutions methodology. Our eNable Methodology, a unique and proven execution process map we developed, allows for repeatable, high quality services delivery.

*Client Relationships.* We have built a track record of quality solutions and client satisfaction through the timely, efficient and successful completion of numerous projects for our clients. As a result, we have established long-term relationships with many of our clients who continue to engage us for additional projects and serve as excellent references for us. In fiscal years 2002, 2003 and 2004, 81%,

85% and 91% of revenue, respectively, excluding from the calculation for any single period revenue from acquisitions completed in that single period, was derived from customers that were clients in the prior year.

*Vendor Partnerships and Endorsements.* We have built meaningful partnerships with software vendors, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our cost of sales and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements. We are a Premier IBM business partner, a TeamTIBCO partner and a Microsoft Gold Certified Partner.

*Geographic Focus.* With nine offices spanning the central United States from Houston, Texas, to Detroit, Michigan, we focus on Global 2000 and midsize companies that have a presence in the central United States. We believe this geographic focus helps position us as the provider of choice for companies in the area that seek information technology consulting services and for software vendors that seek consulting firm partners to sell and deliver solutions that use their products.

*Emerging Offshore Capability.* Our recently acquired subsidiary, Perficient ZettaWorks, Inc., maintains a small offshore development facility in Bitoli, Macedonia. Through this facility and our partnerships with offshore providers based in India, we are developing implementation tools and project delivery capabilities that we believe will enable us to more efficiently deliver our solutions.

Our goal is to be the leading independent information technology consulting firm in the central United States.

To achieve our goal, our strategy is to:

grow our relationships with existing and new clients;

continue making disciplined acquisitions;

expand throughout the central United States;

enhance brand visibility;

invest in our people and culture;

leverage existing, and pursue new, strategic alliances; and

use offshore services when appropriate to deliver our solutions.

### **General Information**

We were incorporated in Texas in September 1997 and reincorporated in Delaware in May 1999. Our principal executive offices are located at 1120 South Capital of Texas Highway, Building 3, Suite 220, Austin, Texas 78746, and our telephone number is (512) 531-6000. Our website may be visited at [www.perficient.com](http://www.perficient.com). The information contained on our website is not a part of this prospectus.

**The Offering**

Common stock offered by us 4,250,000 shares of common stock

Common stock offered by the selling stockholders 782,600 shares of common stock

Common stock to be outstanding after this offering 25,550,172 shares of common stock

Use of proceeds We intend to use a substantial portion of the net proceeds from this offering for future acquisitions. We will also use a portion of the net proceeds from this offering for repayment of debt, working capital and other general corporate purposes. See Use of Proceeds.

We will not receive any proceeds from the sale of shares by the selling stockholders.

Nasdaq National Market Symbol PRFT

Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters over-allotment option.

The number of shares to be outstanding after this offering is based on the number of shares outstanding as of March 31, 2005. This number does not include:

7,042,579 shares issuable under our stock option plan, consisting of:

6,190,928 shares underlying outstanding options at a weighted average price of \$2.91 per share, of which 2,957,981 shares were exercisable; and

851,651 shares available for future issuance under our stock option plan.

379,766 shares underlying outstanding options granted outside of our stock option plan at a weighted average price of \$1.92 per share, 378,184 of which were exercisable.

406,188 shares issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$6.56 per share, all of which are exercisable.

The terms Perficient, we, our and us refer to Perficient, Inc. and its subsidiaries unless the context suggests otherwise. In addition, we refer to our employees as colleagues and will use that term in this prospectus.



**Summary Consolidated Financial Data**  
**(In thousands, except per share data)**

The summary consolidated financial data for the years ended December 31, 2002, 2003 and 2004 are derived from the audited consolidated financial statements that appear in this prospectus.

The pro forma statement of operations data combines the consolidated historical statements of operations of Perficient and of the acquired businesses of Genisys Consulting, Inc., or Genisys, Meritage Technologies, Inc., or Meritage, and ZettaWorks LLC, or ZettaWorks, as if the Genisys, Meritage and ZettaWorks acquisitions had been completed on January 1, 2004. The historical results presented are not necessarily indicative of future results. The pro forma statement of operations data and pro forma balance sheet data excludes the assets and liabilities of ZettaWorks Australia Pty. Ltd., a wholly owned subsidiary of ZettaWorks, that we did not acquire when we acquired the business of ZettaWorks. The as adjusted balance sheet data gives effect upon the closing of this offering to the sale of 4,250,000 shares of common stock, after deducting underwriting discounts and commissions and estimated offering expenses, and application of estimated net proceeds. The pro forma as adjusted consolidated statement of operations data presented eliminates interest expense related to the acquisition line of credit we have with Silicon Valley Bank, which is being repaid with a portion of the net proceeds from this offering, and includes in the computation of earnings per share that number of shares issued in this offering from which we will use the proceeds, net of underwriting discounts and commissions and estimated offering expenses, to repay that line of credit.

The financial data presented are not directly comparable between periods as a result of the acquisitions of Genisys, Meritage and ZettaWorks in 2004 and the acquisitions of Javelin Solutions, Inc., or Javelin, and Primary Webworks, Inc. d/b/a Vertecon, Inc., or Vertecon, in 2002. Stock compensation expense has been reclassified as part of selling, general and administrative expense for purposes of this presentation.

You should read the information set forth below in conjunction with Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and the related notes.

|  | <b>Year Ended December 31,</b> |               |               |                  |
|--|--------------------------------|---------------|---------------|------------------|
|  | <b>Historical</b>              |               |               | <b>Pro Forma</b> |
|  | <b>2002</b>                    | <b>2003</b>   | <b>2004</b>   | <b>2004</b>      |
|  | <b>(Unaudited)</b>             |               |               |                  |
| <b>Consolidated Statements of Operations Data:</b> |                                |               |               |                  |
| Revenue  |                                |               |               |                  |
| Services   | \$ 20,391,587                  | \$ 24,534,617 | \$ 43,330,757 | \$ 69,578,934    |
| Software   | 402,889                        | 3,786,864     | 13,169,693    | 13,169,693       |
| Reimbursable expenses                              | 1,655,808                      | 1,870,441     | 2,347,223     | 2,846,066        |
| Total revenue                                      | 22,450,284                     | 30,191,922    | 58,847,673    | 85,594,693       |
| Cost of revenue(1)                                 |                                |               |               |                  |
| Project personnel costs                            | 11,210,272                     | 13,411,762    | 26,072,516    | 43,555,403       |
| Software costs                                     | 343,039                        | 3,080,894     | 11,341,145    | 11,341,145       |
| Reimbursable expenses                              | 1,655,808                      | 1,870,441     | 2,347,223     | 2,834,788        |
| Other project related expenses                     | 330,100                        | 453,412       | 267,416       | 1,810,857        |
| Total cost of revenue                              | 13,539,219                     | 18,816,509    | 40,028,300    | 59,542,193       |
| Gross margin                                       | 8,911,065                      | 11,375,413    | 18,819,373    | 26,052,500       |
| Selling, general and administrative                | 8,567,698                      | 7,993,008     | 11,067,792    | 18,320,276       |
| Depreciation                                       | 687,570                        | 670,436       | 512,076       | 709,221          |
| Amortization of intangibles                        | 1,285,524                      | 610,421       | 696,420       | 1,434,962        |
| Restructuring, severance and other                 | 579,427                        |               |               |                  |
| Income (loss) from operations                      | (2,209,154)                    | 2,101,548     | 6,543,085     | 5,588,041        |
| Interest income                                    | 17,732                         | 3,286         | 2,564         |                  |
| Interest expense                                   | (203,569)                      | (285,938)     | (137,278)     | (312,484)        |
| Other  | (53)                           | (13,459)      | 32,586        | 37,127           |
| Income (loss) before income taxes                  | (2,395,044)                    | 1,805,437     | 6,440,957     | 5,312,684        |
| (Provision) benefit for income taxes               |                                | (755,405)     | (2,527,669)   | (2,087,643)      |
| Net income (loss)                                  | \$ (2,395,044)                 | \$ 1,050,032  | \$ 3,913,288  | \$ 3,225,041     |
| Beneficial conversion charge on preferred stock    |                                |               |               |                  |
|  | (1,672,746)                    |               |               |                  |
| Accretion of dividends on preferred stock          |                                |               |               |                  |
|  | (163,013)                      | (157,632)     |               |                  |
| Net income (loss) available to common stockholders | \$ (4,230,803)                 | \$ 892,400    | \$ 3,913,288  | \$ 3,225,041     |
| Basic net income (loss) per share(2)               | \$ (0.46)                      | \$ 0.08       | \$ 0.22       | \$ 0.16          |

|   |    |           |    |            |    |            |    |            |
|---|----|-----------|----|------------|----|------------|----|------------|
| Diluted net income (loss) per share                           | \$ | (0.46)    | \$ | 0.07       | \$ | 0.19       | \$ | 0.14       |
| Shares used in computing basic net income (loss) per share(2) |    | 9,173,657 |    | 11,364,203 |    | 17,648,575 |    | 20,214,820 |
| Shares used in computing diluted net income (loss) per share  |    | 9,173,657 |    | 15,306,151 |    | 20,680,507 |    | 23,331,219 |
| <b>Pro Forma As Adjusted:</b>                                 |    |           |    |            |    |            |    |            |
| Interest expense  |    |           |    |            |    |            |    | \$         |
| Income (loss) before income taxes                             |    |           |    |            |    |            |    | \$         |
| (Provision) benefit for income taxes                          |    |           |    |            |    |            |    | \$         |
| Net income (loss)   |    |           |    |            |    |            |    | \$         |
| Net income (loss) available to common stockholders            |    |           |    |            |    |            |    | \$         |
| Basic net income (loss) per share(2)                          |    |           |    |            |    |            |    | \$         |
| Diluted net income (loss) per share                           |    |           |    |            |    |            |    | \$         |
| Shares used in computing basic net income (loss) per share(2) |    |           |    |            |    |            |    |            |
| Shares used in computing diluted net income (loss) per share  |    |           |    |            |    |            |    |            |

(1) Exclusive of depreciation shown separately below gross margin.

- (2) In accordance with the transition provisions of the Emerging Issues Task Force (EITF) 03-06 *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share* our basic net income per share and shares used in computing basic net income per share for year 2003 have been conformed for current period presentation for the year ended December 31, 2004. The impact of the adoption of this pronouncement is shown retroactively for all periods presented.

**As of December 31, 2004**

|  | <b>Actual</b> | <b>As<br/>Adjusted</b> |
|--|---------------|------------------------|
| <b>Balance Sheet Data:</b>             |               |                        |
| Cash                                   | \$ 3,905,460  | \$                     |
| Working capital                        | 9,233,577     |                        |
| Total assets                           | 62,582,365    |                        |
| Current portion of long term debt      | 1,379,201     |                        |
| Long term debt, net of current portion | 2,902,306     |                        |
| Stockholders' equity                   | 44,622,367    |                        |

## **RISK FACTORS**

*You should carefully consider the following risk factors together with the other information contained in or incorporated by reference into this prospectus before you decide to buy our common stock. If any of these risks actually occur, our business, financial condition, operating results or cash flows could be materially adversely affected. This could cause the trading price of our common stock to decline and you may lose part or all of your investment.*

### ***Risks Related to Our Business***

#### **Prolonged economic weakness in the Internet software and services market could adversely affect our business, financial condition and results of operations.**

The market for Internet software and services has changed rapidly over the last six years. The market for Internet software and services expanded dramatically during 1999 and most of 2000, but declined significantly in 2001 and 2002. Market demand for Internet software and services began to stabilize and improve throughout 2003 and 2004, but this trend may not continue. Our future growth is dependent upon the demand for Internet software and services, and, in particular, the information technology consulting services we provide. Demand and market acceptance for Internet services are subject to a high level of uncertainty. Prolonged weakness in the Internet software and services industry has caused in the past, and may cause in the future, business enterprises to delay or cancel information technology projects, reduce their overall budgets and/or reduce or cancel orders for our services. This, in turn, may lead to longer sales cycles, delays in purchase decisions, payment and collection, and may also result in price pressures, causing us to realize lower revenues and operating margins. If companies cancel or delay their business and technology initiatives or choose to move these initiatives in-house, our business, financial condition and results of operations could be materially and adversely affected.

#### **We may not be able to attract and retain information technology consulting professionals, which could affect our ability to compete effectively.**

Our business is labor intensive. Accordingly, our success depends in large part upon our ability to attract, train, retain, motivate, manage and effectively utilize highly skilled information technology consulting professionals. Additionally, our technology professionals are primarily at-will employees. Failure to retain highly skilled technology professionals would impair our ability to adequately manage, staff and implement our existing projects and to bid for or obtain new projects, which in turn would adversely affect our operating results.

#### **Our success will depend on retaining our senior management team and key personnel.**

Our industry is highly specialized and the competition for qualified management and key personnel is intense. We expect this to remain so for the foreseeable future. We believe that our success will depend on retaining our senior management team and key technical and business consulting personnel. Retention is particularly important in our business as personal relationships are a critical element of obtaining and maintaining strong relationships with our clients. If a significant number of these individuals stop working for us, our level of management, technical, marketing and sales expertise could diminish. We may be unable to achieve our revenue and operating performance objectives unless we can attract and retain technically qualified and highly skilled sales, technical, business consulting, marketing and management personnel. These individuals would be difficult to replace, and losing them could seriously harm our business.

#### **We may have difficulty in identifying and competing for strategic acquisition and partnership opportunities.**

Our business strategy includes the pursuit of strategic acquisitions. We may acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into

strategic partnerships or alliances with third parties in the future in order to expand our business. We may be unable to identify suitable acquisition, strategic investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially favorable to us, or at all. If we fail to identify and successfully complete these transactions, our competitive position and our growth prospects could be adversely affected. In addition, we may face competition from other companies with significantly greater resources for acquisition candidates, making it more difficult for us to acquire suitable companies on favorable terms.

**Pursuing and completing potential acquisitions could divert management's attention and financial resources and may not produce the desired business results.**

We do not have specific personnel dedicated to pursuing and making strategic acquisitions. As a result, if we pursue any acquisition, our management could spend a significant amount of time and financial resources to pursue and integrate the acquired business with our existing business. To pay for an acquisition, we might use capital stock, cash or a combination of both. Alternatively, we may borrow money from a bank or other lender. If we use capital stock, our stockholders will experience dilution. If we use cash or debt financing, our financial liquidity may be reduced and the interest on any debt financing could adversely affect our results of operations. From an accounting perspective, an acquisition may involve amortization or the write-off of significant amounts of intangible assets that could adversely affect our results of operations.

Despite the investment of these management and financial resources, and completion of due diligence with respect to these efforts, an acquisition may not produce the anticipated revenues, earnings or business synergies for a variety of reasons, including:

- difficulties in the integration of the technologies, services and personnel of the acquired business;
- the failure of management and acquired services personnel to perform as expected;
- the risks of entering markets in which we have no, or limited, prior experience;
- the failure to identify or adequately assess any undisclosed or potential legal liabilities of the acquired business;
- the failure of the acquired business to achieve the forecasts we used to determine the purchase price; or
- the potential loss of key personnel of the acquired business.

These difficulties could disrupt our ongoing business, distract our management and colleagues, increase our expenses and materially and adversely affect our results of operations.

**The market for the information technology consulting services we provide is competitive, has low barriers to entry and is becoming increasingly consolidated, which may adversely affect our market position.**

The market for the information technology consulting services we provide is competitive, rapidly evolving and subject to rapid technological change. In addition, there are relatively low barriers to entry into this market and therefore new entrants may compete with us in the future. For example, due to the rapid changes and volatility in our market, many well-capitalized companies, including some of our partners, that have focused on sectors of the Internet software and services industry that are not competitive with our business may refocus their activities and deploy their resources to be competitive with us.

Our future financial performance will depend, in large part, on our ability to establish and maintain an advantageous market position. We currently compete with regional and national information

technology consulting firms, and, to a limited extent, offshore service providers and in-house information technology departments. Many of the larger regional and national information technology consulting firms have substantially longer operating histories, more established reputations and potential partner relationships, greater financial resources, sales and marketing organizations, market penetration and research and development capabilities, as well as broader product offerings and greater market presence and name recognition. We may face increasing competitive pressures from these competitors as the market for Internet software and services continues to grow. This may place us at a disadvantage to our competitors, which may harm our ability to grow, maintain revenue or generate net income.

In recent years, there has been substantial consolidation in our industry, and we expect that there will be significant additional consolidation in the near future. As a result of this increasing consolidation, we expect that we will increasingly compete with larger firms that have broader product offerings and greater financial resources than we have. We believe that this competition could have a significant negative effect on our marketing, distribution and reselling relationships, pricing of services and products and our product development budget and capabilities. Any of these negative effects could significantly impair our results of operations and financial condition. We may not be able to compete successfully against new or existing competitors.

**Our business will suffer if we do not keep up with rapid technological change, evolving industry standards or changing customer requirements.**

Rapidly changing technology, evolving industry standards and changing customer needs are common in the Internet software and services market. We expect technological developments to continue at a rapid pace in our industry. Technological developments, evolving industry standards and changing customer needs could cause our business to be rendered obsolete or non-competitive, especially if the market for the core set of eBusiness solutions and software platforms in which we have expertise does not grow or if such growth is delayed due to market acceptance, economic uncertainty or other conditions. Accordingly, our success will depend, in part, on our ability to:

continue to develop our technology expertise;

enhance our current services;

develop new services that meet changing customer needs;

advertise and market our services; and

influence and respond to emerging industry standards and other technological changes.

We must accomplish all of these tasks in a timely and cost-effective manner. We might not succeed in effectively doing any of these tasks, and our failure to succeed could have a material and adverse effect on our business, financial condition or results of operations, including materially reducing our revenue and operating results.

We may also incur substantial costs to keep up with changes surrounding the Internet. Unresolved critical issues concerning the commercial use and government regulation of the Internet include the following:

security;

intellectual property ownership;

privacy;

taxation; and

liability issues.

Any costs we incur because of these factors could materially and adversely affect our business, financial condition and results of operations, including reduced net income.

**A significant portion of our revenue is dependent upon building long-term relationships with our clients and our operating results could suffer if we fail to maintain these relationships.**

Our professional services agreements with clients are in most cases terminable on 10 to 30 days' notice. A client may choose at any time to use another consulting firm or choose to perform services we provide through their own internal resources. Accordingly, we rely on our clients' interests in maintaining the continuity of our services rather than on contractual requirements. Termination of a relationship with a significant client or with a group of clients that account for a significant portion of our revenues could adversely affect our revenues and results of operations.

**If we fail to meet our clients' performance expectations, our reputation may be harmed.**

As a services provider, our ability to attract and retain clients depends to a large extent on our relationships with our clients and our reputation for high quality services and integrity. We also believe that the importance of reputation and name recognition is increasing and will continue to increase due to the number of providers of information technology services. As a result, if a client is not satisfied with our services or does not perceive our solutions to be effective or of high quality, our reputation may be damaged and we may be unable to attract new, or retain existing, clients and colleagues.

**We may face potential liability to customers if our customers' systems fail.**

Our eBusiness integration solutions are often critical to the operation of our customers' businesses and provide benefits that may be difficult to quantify. If one of our customers' systems fails, the customer could make a claim for substantial damages against us, regardless of our responsibility for that failure. The limitations of liability set forth in our contracts may not be enforceable in all instances and may not otherwise protect us from liability for damages. Our insurance coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims. In addition, a given insurer might disclaim coverage as to any future claims. If we experience one or more large claims against us that exceed available insurance coverage or result in changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, our business and financial results could suffer.

**The loss of one or more of our significant software partners would have a material adverse effect on our business and results of operations.**

Our partnerships with software vendors enable us to reduce our cost of sales and increase win rates through leveraging our partners' marketing efforts and strong vendor endorsements. The loss of one or more of these relationships and endorsements could increase our sales and marketing costs, lead to longer sales cycles, harm our reputation and brand recognition, reduce our revenues and adversely affect our results of operations.

In particular, a substantial portion of our solutions are built on IBM WebSphere platforms and a significant number of our clients are identified through joint selling opportunities conducted with IBM, through sales leads obtained from our relationship with IBM and through a services agreement we have with IBM. Revenue from IBM was approximately 35% and 17% of total revenue for the years ended December 31, 2003 and 2004, respectively. The loss of our relationship with, or a significant reduction in the services we perform for IBM would have a material adverse effect on our business and results of operations.



**Our quarterly operating results may be volatile and may cause our stock price to fluctuate.**

Our quarterly revenue, expenses and operating results have varied in the past and may vary significantly in the future. In addition, many factors affecting our operating results are outside of our control, such as:

demand for Internet software and services;

customer budget cycles;

changes in our customers' desire for our partners' products and our services;

pricing changes in our industry;

government regulation and legal developments regarding the use of the Internet; and

general economic conditions.

As a result, if we experience unanticipated changes in the number or nature of our projects or in our employee utilization rates, we could experience large variations in quarterly operating results and losses in any particular quarter.

**Our services revenues may fluctuate quarterly due to seasonality or timing of completion of projects.**

We may experience seasonal fluctuations in our services revenues. We expect that services revenues in the fourth quarter of a given year may typically be lower than in other quarters in that year as there are fewer billable days in this quarter as a result of vacations and holidays. In addition, we generally perform services on a project basis. While we seek wherever possible to counterbalance periodic declines in revenues on completion of large projects with new arrangements to provide services to the same client or others, we may not be able to avoid declines in revenues when large projects are completed. Our inability to obtain sufficient new projects to counterbalance any decreases in work upon completion of large projects could adversely affect our revenues and results of operations.

**Our software revenue may fluctuate quarterly, leading to volatility in the price of our stock.**

Our quarterly revenues from sales of third-party software have varied in the past and may vary significantly from quarter to quarter, making them difficult to predict. This may lead to volatility in our share price. The factors that are likely to cause these variations are:

the business decisions of our clients regarding the investment in new technology;

customer demand in any given quarter; and

the stage of completion of existing projects and/or their termination.

Our software revenue may fluctuate quarterly and be higher in the fourth quarter of a given year as procurement policies of our clients may result in higher technology spending towards the end of budget cycles. This seasonal trend may materially affect our quarter-to-quarter revenues, margins and operating results.

**Our overall gross margin fluctuates quarterly based on our services and software revenue mix, which may cause our stock price to fluctuate.**

The gross margin on our services revenue is, in most instances, greater than the gross margin on our software revenue. As a result, our gross margin will be higher in quarters where our services revenue, as a percentage of total revenue, has increased, and will be lower in quarters where our software revenue, as a percentage of total revenue, has increased. In addition, gross margin on software revenue may fluctuate as a result of variances in gross margin on individual software products. Our stock price may be negatively affected in quarters in which our gross margin decreases.

**Our services gross margins are subject to fluctuations as a result of variances in utilization rates and billing rates.**

Our services gross margins are affected by trends in the utilization rate of our professionals, defined as the percentage of our professionals' time billed to customers divided by the total available hours in a period, and in the billing rates we charge our clients. Our operating expenses, including employee salaries, rent and administrative expenses are relatively fixed and cannot be reduced on short notice to compensate for unanticipated variations in the number or size of projects in process. If a project ends earlier than scheduled, we may need to redeploy our project personnel. Any resulting non-billable time may adversely affect our gross margins.

The average billing rates for our services may decline due to rate pressures from significant customers and other market factors, including innovations and average billing rates charged by our competitors. Also, our average billing rates will decline if we acquire companies with lower average billing rates than ours. To sell our products and services at higher prices, we must continue to develop and introduce new services and products that incorporate new technologies or high-performance features. If we experience pricing pressures or fail to develop new services, our revenues and gross margins could decline, which could harm our business, financial condition and results of operations.

**If we fail to complete fixed-fee contracts within budget and on time, our results of operations could be adversely affected.**

We perform a limited number of projects on a fixed-fee, turnkey basis, rather than on a time-and-materials basis. Under these contractual arrangements, we bear the risk of cost overruns, completion delays, wage inflation and other cost increases. If we fail to estimate accurately the resources and time required to complete a project or fail to complete our contractual obligations within the scheduled timeframe, our results of operations could be adversely affected. We cannot assure you that in the future we will not price these contracts inappropriately, which may result in losses.

**We may not be able to maintain our level of profitability.**

Although we have been profitable for the past six quarters, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. We cannot assure you of any operating results. In future quarters, our operating results may not meet public market analysts' and investors' expectations. If this occurs, the price of our common stock will likely fall.

**If we do not effectively manage our growth, our results of operations could be adversely affected.**

Our ability to operate profitably depends largely on how effectively we manage our growth. In order to create the additional capacity necessary to accommodate the demand for our services, we may need to implement a variety of new and upgraded operational and financial systems, procedures and controls, open new offices or hire additional colleagues. Implementation of these new systems, procedures and controls may require substantial management efforts and our efforts to do so may not be successful. The opening of new offices or the hiring of additional colleagues may result in idle or underutilized capacity. We periodically assess the expected long-term capacity utilization of our offices and professionals. We may not be able to achieve or maintain optimal utilization of our offices and professionals. If demand for our services does not meet our expectations, our revenues will not be sufficient to offset these expenses and our results of operations could be adversely affected.

**We may be exposed to potential risks resulting from new requirements under Section 404 of the Sarbanes-Oxley Act of 2002.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required, beginning with our fiscal year ending December 31, 2005, to include in our annual report our assessment of the effectiveness of our internal control over financial reporting as of the end of fiscal 2005. Furthermore,

our independent registered public accounting firm, BDO Seidman, LLP, may be required to attest to whether our assessment of the effectiveness of our internal control over financial reporting is fairly stated in all material respects and separately report on whether it believes we have maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005. We have not yet completed our assessment of the effectiveness of our internal control over financial reporting. We expect to incur additional expenses and diversion of management's time as a result of performing the system and process evaluation, testing and remediation required in order to comply with the management certification and auditor attestation requirements. If we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a loss of public confidence in our internal control. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

***Risks Relating to this Offering and Ownership of Our Common Stock***

**The trading volume of our common stock has been limited and, as a result, our stock price may fluctuate widely.**

Our common stock is traded on the Nasdaq National Market under the symbol PRFT. The trading volume of our common stock has been limited and our stock price has been volatile. Our stock price may continue to fluctuate widely as a result of the limited trading volume, announcements of new services and products by us or our competitors, quarterly variations in operating results, the gain or loss of significant customers, changes in public market analysts' estimates and market conditions for information technology consulting firms and other technology stocks in general.

We periodically review and consider possible acquisitions of companies that we believe will contribute to our long-term objectives. In addition, depending on market conditions, liquidity requirements and other factors, from time to time we consider accessing the capital markets. These events may also affect the market price of our common stock.

**Our management has broad discretion over the use of proceeds from this offering and may use the proceeds in ways with which you do not agree.**

We estimate the net proceeds of this offering to us to be approximately \$ million after deducting underwriting discounts and commissions and estimated offering expenses. Our management will maintain broad discretion to allocate the proceeds of this offering and the failure of management to apply these funds effectively could materially harm our results of operations.

**Our officers, directors, and 5% and greater stockholders own a large percentage of our voting securities and their interests may differ from other stockholders.**

Our executive officers, directors and existing 5% and greater stockholders beneficially own or control approximately 25% of the voting power of our common stock. This concentration of ownership of our common stock may make it difficult for our other stockholders to successfully approve or defeat matters that may be submitted for action by our stockholders. It may also have the effect of delaying, deterring or preventing a change in control of our company.

**We may need additional capital in the future, which may not be available to us. The raising of any additional capital may dilute your ownership percentage in our stock.**

Our existing accounts receivable line of credit expires in December 2005 and our term loan acquisition facility advance period expires in June 2005. If we are unable to renew our line of credit, we

may need to obtain an alternate debt financing facility. In the future we may decide to raise additional funds through public or private debt or equity financing in order to:

take advantage of opportunities, including more rapid expansion or acquisitions of, or investments in, businesses or technologies;

develop new services; or

respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute your ownership percentage in our stock. Furthermore, we cannot assure you that any additional financing we may need will be available on terms favorable to us, or at all. In that case, our business results would suffer.

**It may be difficult for another company to acquire us, and this could depress our stock price.**

Provisions contained in our certificate of incorporation, bylaws and Delaware law could make it difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. Our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable by authorizing the issuance of blank check preferred stock. In addition, provisions of the Delaware General Corporation Law also restrict some business combinations with interested stockholders. These provisions are intended to encourage potential acquirers to negotiate with us and allow the board of directors the opportunity to consider alternative proposals in the interest of maximizing stockholder value. However, these provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price.

In addition, under our agreement with IBM, we have granted IBM a right of first offer and a right to terminate its agreement with us with respect to any transaction involving a change of control of us with a company that has a substantial portion of its business in the web application server product and services market, other than a systems integrator or professional services firm. As a result, a potential acquirer may be discouraged from making an offer to buy us.

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this prospectus that are not purely historical statements discuss future expectations, contain projections of results of operations or financial condition or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like may, will, should, expects, plans, anticipates, believe, estimates, predicts, potential or continue or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed under the heading Risk Factors in this prospectus.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform such statements to actual results.

### USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of 4,250,000 shares of our common stock pursuant to this offering, based upon the public offering price of \$        per share, will be approximately \$        million after deducting underwriting discounts and commissions and estimated offering expenses. We will not receive any proceeds from the sale of shares offered by the selling stockholders.

We expect to use a substantial portion of the net proceeds from this offering for expansion of our business, including future acquisitions of information technology consulting firms.

We will also use a portion of the net proceeds from this offering to repay all amounts outstanding under our credit facility with Silicon Valley Bank. Borrowings under the accounts receivable line of credit bear interest at a rate equal to the bank's prime rate plus 1.00%, or 6.75%, as of March 31, 2005. As of March 31, 2005, the balance outstanding under the accounts receivable line of credit was \$2 million. Borrowings under the acquisition line of credit bear interest at a rate equal to the average four-year U.S. Treasury Note yield plus 3.50%. As of March 31, 2005, the balance outstanding under this acquisition credit facility was \$3.6 million, of which \$2.1 million was bearing interest at a rate of 7.11%, and \$1.5 million was bearing interest at a rate of 6.90%.

We will use any remaining net proceeds from this offering for working capital and other general corporate purposes. The amounts actually spent by us may vary significantly and will depend upon a number of factors, including our future revenue and the other factors described under Risk Factors. Accordingly, our management has broad discretion in the allocation of the net proceeds from this offering.

**PRICE RANGE OF COMMON STOCK AND DIVIDEND POLICY**

Our common stock is quoted on the Nasdaq National Market under the symbol PRFT. Prior to February 2, 2005, our common stock was quoted on the Nasdaq SmallCap Market under the same symbol. The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on the Nasdaq SmallCap Market prior to February 2, 2005 and on the Nasdaq National Market beginning February 2, 2005.

|  | <b>High</b> | <b>Low</b> |
|--|-------------|------------|
| <b>Year Ending December 31, 2003:</b>  |             |            |
| First Quarter                          | \$ 1.07     | \$ 0.50    |
| Second Quarter                         | 1.29        | 0.55       |
| Third Quarter                          | 3.03        | 0.94       |
| Fourth Quarter                         | 3.82        | 2.15       |
| <b>Year Ending December 31, 2004:</b>  |             |            |
| First Quarter                          | \$ 4.32     | \$ 2.36    |
| Second Quarter                         | 5.00        | 3.10       |
| Third Quarter                          | 4.00        | 2.91       |
| Fourth Quarter                         | 6.96        | 3.84       |
| <b>Year Ending December 31, 2005:</b>  |             |            |
| First Quarter                          | \$ 9.44     | \$ 6.80    |
| Second Quarter (through April 7, 2005) | \$ 7.16     | \$ 6.97    |

On April 7, 2005, the last reported sale price of our common stock on the Nasdaq National Market was \$7.10 per share. There were approximately 110 stockholders of record of our common stock as of March 31, 2005.

We have never declared or paid any cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Our credit facility currently prohibits the payment of cash dividends without the prior written consent of Silicon Valley Bank.

**CAPITALIZATION**

The following table sets forth our capitalization as of December 31, 2004 on an actual basis and on an as adjusted basis. The as adjusted data gives effect to the sale of 4,250,000 shares of common stock offered by us at the public offering price of \$ per share after deducting underwriting discounts and commissions and estimated offering expenses, and the application of the net proceeds to the repayment of long-term debt. See Use of Proceeds.

Please read this capitalization table together with the sections of this prospectus entitled Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus or incorporated by reference into this prospectus.

|  | <b>As of December 31, 2004</b> |                                     |
|--|--------------------------------|-------------------------------------|
|  | <b>Actual</b>                  | <b>As Adjusted for the Offering</b> |
| Cash   | \$ 3,905,460                   | \$                                  |
| Liabilities:   |                                |                                     |
| Current portion of long term debt  | \$ 1,379,201                   | \$                                  |
| Long-term debt, net of current portion   | 2,902,306                      |                                     |
|  | 4,281,507                      |                                     |
| Stockholders' equity:  |                                |                                     |
| Common stock, \$0.001 par value; 40,000,000 shares authorized;<br>20,913,532 shares issued and outstanding actual; |                                |                                     |
| 25,163,532 shares issued and outstanding as adjusted   | 20,914                         |                                     |
| Additional paid-in capital   | 102,637,699                    |                                     |
| Unearned stock compensation  | (1,656,375)                    |                                     |
| Accumulated other comprehensive loss   | (57,837)                       |                                     |
| Retained deficit   | (56,322,034)                   |                                     |
| Total stockholders' equity   | \$ 44,622,367                  | \$                                  |
| Total capitalization   | \$ 48,903,874                  | \$                                  |

**DILUTION**

Purchasers of common stock in this offering will experience immediate dilution in the net tangible book value of the common stock from the public offering price. As of December 31, 2004, our net tangible book value was approximately \$7.3 million, or approximately \$0.35 per share of common stock. Net tangible book value per share represents the amount of total tangible assets less total liabilities of Perficient, divided by the number of shares of common stock outstanding. After our sale of common stock in this offering at the public offering price of \$            per share and after the deduction of underwriting discounts and commissions and estimated offering expenses, our as adjusted net tangible book value as of December 31, 2004 would have been approximately \$            million, or \$            per share. This represents an immediate increase in net tangible book value of \$            per share to existing stockholders and an immediate dilution of \$            per share to new investors in this offering. The following table illustrates this per share dilution:

|   |    |    |
|---|----|----|
| Public offering price per share                                   |    | \$ |
| Net tangible book value per share as of December 31, 2004         | \$ |    |
| Change attributable to new investors                              | \$ |    |
| As adjusted net tangible book value per share after this offering |    | \$ |
| Dilution per share to new investors                               |    | \$ |

If the underwriters fully exercise their over-allotment option to purchase additional shares in this offering, the net tangible book value per share after this offering will be \$            per share, the pro forma change attributable to new investors will be \$            and the dilution to new investors will be \$            per share.

The foregoing discussion and tables do not assume exercise of any stock options or warrants after March 31, 2005. As of March 31, 2005, there were 3,335,865 shares of common stock issuable upon exercise of exercisable stock options at a weighted average exercise price of \$2.85 per share, 7,042,579 shares of common stock reserved for issuance under our stock option plan and 406,188 shares of common stock issuable upon exercise of outstanding warrants, at a weighted average exercise price of \$6.56 per share, all of which were exercisable. To the extent that these options and warrants are exercised, there will be further dilution to new investors.



**SELECTED CONSOLIDATED FINANCIAL DATA**  
**(In thousands, except per share data)**

You should read the selected consolidated financial data set forth below in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in this prospectus. The following table sets forth the selected consolidated financial data for each of the fiscal years indicated.

The pro forma statement of operations data combines the consolidated historical statements of operations of Perficient and of the acquired businesses of Genisys, Meritage and ZettaWorks as if the Genisys, Meritage and ZettaWorks acquisitions had been completed on January 1, 2004. The historical results presented are not necessarily indicative of future results. The pro forma statement of operations data and pro forma balance sheet data excludes the assets and liabilities of ZettaWorks Australia Pty. Ltd., a wholly owned subsidiary of ZettaWorks, that we did not acquire when we acquired the business of ZettaWorks.

The financial data presented are not directly comparable between periods as a result of the acquisitions of Genisys, Meritage and ZettaWorks in 2004, the acquisitions of Javelin and Vertecon in 2002, and the acquisitions of Compete, Inc., or Compete, LoreData, Inc. and Core Objective, Inc., or Core Objective, in 2000.

Revenue and cost of revenue are not directly comparable between periods because revenue and cost of revenue for 2000 and 2001 are shown net of project related expenses, consisting of reimbursable expenses and other project related expenses. Revenue and cost of revenue were not reclassified for periods ended on or before December 31, 2001 because it was impractical for the individual reimbursable expenses and other project related expenses to be reasonably identified. The characterization of project related expenses for 2000 and 2001 has no effect on periods beginning after December 31, 2001. In addition, stock compensation expense has been reclassified as part of selling, general and administrative expense for purposes of this presentation.

|  | Year Ended December 31, |               |                    |               |               | Pro Forma<br>2004<br>(Unaudited) |
|--|-------------------------|---------------|--------------------|---------------|---------------|----------------------------------|
|  | 2000                    | 2001          | Historical<br>2002 | 2003          | 2004          |                                  |
| <b>Consolidated Statements of Operations Data:</b> |                         |               |                    |               |               |                                  |
| Revenue  |                         |               |                    |               |               |                                  |
| Services   | \$ 19,963,759           | \$ 20,416,643 | \$ 20,391,587      | \$ 24,534,617 | \$ 43,330,757 | \$ 69,578,934                    |
| Software   |                         |               | 402,889            | 3,786,864     | 13,169,693    | 13,169,693                       |
| Reimbursable expenses                              |                         |               | 1,655,808          | 1,870,441     | 2,347,223     | 2,846,066                        |
| Total revenue                                      | 19,963,759              | 20,416,643    | 22,450,284         | 30,191,922    | 58,847,673    | 85,594,693                       |
| Cost of revenue(1)                                 |                         |               |                    |               |               |                                  |
| Project personnel costs                            | 9,931,064               | 11,879,224    | 11,210,272         | 13,411,762    | 26,072,516    | 43,555,403                       |
| Software costs                                     |                         |               | 343,039            | 3,080,894     | 11,341,145    | 11,341,145                       |
| Reimbursable expenses                              |                         |               | 1,655,808          | 1,870,441     | 2,347,223     | 2,834,788                        |
| Other project related expenses                     |                         |               | 330,100            | 453,412       | 267,416       | 1,810,857                        |
| Total cost of revenue                              | 9,931,064               | 11,879,224    | 13,539,219         | 18,816,509    | 40,028,300    | 59,542,193                       |
| Gross margin                                       | 10,032,695              | 8,537,419     | 8,911,065          | 11,375,413    | 18,819,373    | 26,052,500                       |
| Selling, general and administrative                | 10,655,652              | 9,001,405     | 8,567,698          | 7,993,008     | 11,067,792    | 18,320,276                       |
| Depreciation                                       |                         | 494,586       | 687,570            | 670,436       | 512,076       | 709,221                          |
| Amortization of intangibles                        | 12,941,570              | 15,312,280    | 1,285,524          | 610,421       | 696,420       | 1,434,962                        |
| Restructuring, severance, and other                |                         | 766,477       | 579,427            |               |               |                                  |
| Impairment charge                                  |                         | 26,798,178    |                    |               |               |                                  |
| Income (loss) from operations                      | (13,564,527)            | (43,835,507)  | (2,209,154)        | 2,101,548     | 6,543,085     | 5,588,041                        |
| Interest income                                    | 263,263                 | 31,093        | 17,732             | 3,286         | 2,564         |                                  |
| Interest expense                                   | (151,086)               | (122,395)     | (203,569)          | (285,938)     | (137,278)     | (312,484)                        |
| Other  |                         | (1,608)       | (53)               | (13,459)      | 32,586        | 37,127                           |
| Income (loss) before income                        | (13,452,350)            | (43,928,417)  | (2,395,044)        | 1,805,437     | 6,440,957     | 5,312,684                        |

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|   |                 |                 |                |              |              |              |  |
|---|-----------------|-----------------|----------------|--------------|--------------|--------------|--|
| taxes   |                 |                 |                |              |              |              |  |
| (Provision) benefit for income taxes                          | (175,000)       | 42,261          |                | (755,405)    | (2,527,669)  | (2,087,643)  |  |
| Net income (loss)   | \$ (13,627,350) | \$ (43,886,156) | \$ (2,395,044) | \$ 1,050,032 | \$ 3,913,288 | \$ 3,225,041 |  |
| Beneficial conversion charge on preferred stock               |                 |                 | (1,672,746)    |              |              |              |  |
| Accretion of dividends on preferred stock                     |                 |                 | (163,013)      | (157,632)    |              |              |  |
| Net income (loss) available to common stockholders            | \$ (13,627,350) | \$ (43,886,156) | \$ (4,230,803) | \$ 892,400   | \$ 3,913,288 | \$ 3,225,041 |  |
| Basic net income (loss) per share(2)                          | \$ (2.52)       | \$ (7.01)       | \$ (0.46)      | \$ 0.08      | \$ 0.22      | \$ 0.16      |  |
| Diluted net income (loss) per share                           | \$ (2.52)       | \$ (7.01)       | \$ (0.46)      | \$ 0.07      | \$ 0.19      | \$ 0.14      |  |
| Shares used in computing basic net income (loss) per share(2) | 5,409,353       | 6,261,053       | 9,173,657      | 11,364,203   | 17,648,575   | 20,214,820   |  |
| Shares used in computing diluted net income (loss) per share  | 5,409,353       | 6,261,053       | 9,173,657      | 15,306,151   | 20,680,507   | 23,331,219   |  |

(1) Exclusive of depreciation shown separately below gross margin.

(2) In accordance with the transition provisions of the Emerging Issues Task Force (EITF) 03-06 *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share* our basic net income per share and shares used in computing basic net income per share for year 2003 have been conformed for current period presentation for the year ended December 31, 2004. The impact of the adoption of this pronouncement is shown retroactivity for all periods presented.

**Historical**

**As of December 31,**

**2000                      2001                      2002                      2003                      2004**

**Balance Sheet Data:**

|   |            |              |              |              |              |
|---|------------|--------------|--------------|--------------|--------------|
| Cash  | \$ 842,481 | \$ 1,412,238 | \$ 1,525,002 | \$ 1,989,395 | \$ 3,905,460 |
| Working capital   | 3,373,522  | 2,494,191    | 1,854,276    | 4,013,373    | 9,233,577    |
| Property and equipment, net                             | 804,406    | 533,948      | 1,211,018    | 699,145      | 805,831      |
| Intangible assets, net                                  | 45,558,173 | 3,550,100    | 12,380,039   | 11,693,834   | 37,339,891   |
| Total assets  | 54,614,942 | 9,117,695    | 19,593,103   | 20,259,983   | 62,582,365   |
| Line of credit and current<br>portion of long term debt | 1,728,307  | 703,144      | 1,025,488    | 366,920      | 1,379,201    |
| Long term debt, net of current<br>portion               | 7,232      | 3,667        | 745,318      | 436,258      | 2,902,306    |
| Stockholders equity                                     | 49,973,947 | 6,836,301    | 14,521,483   | 16,016,038   | 44,622,367   |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this prospectus and in the documents that we incorporate by reference into this prospectus. This prospectus may contain certain forward-looking information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Risk Factors.*

### **Overview**

We are a rapidly growing information technology consulting firm serving Global 2000 and midsize companies in the central United States. We help clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. Our solutions enable these benefits by integrating, automating and extending business processes, technology infrastructure and software applications end-to-end within an organization and with key partners, suppliers and customers. This provides real-time access to critical business applications and information and a scalable, reliable, secure and cost-effective technology infrastructure.

### *Services Revenue*

Our services revenue is derived from professional services performed developing, implementing, integrating, automating and extending business processes, technology infrastructure and software applications. Most of our projects are performed on a time and materials basis, and a smaller amount of revenue is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 10.3% of our services revenue for the year ended December 31, 2004. For time and material projects, revenue is recognized and billed by multiplying the number of hours our professionals expend in the performance of the project by the established billing rates. For fixed fee projects, revenue is generally recognized using the proportionate performance method. Provisions for estimated profits or losses on uncompleted projects are made on a contract-by-contract basis and are recognized in the period in which such profits or losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. On many projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenue. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our customers, the total number of our projects that require travel, and whether our arrangements with our clients provide for the reimbursement of travel and other project related expenses.

### *Software Revenue*

A smaller but growing portion of our revenue is derived from sales of third-party software, particularly IBM WebSphere products. Revenue from sales of third-party software is recorded on a gross basis provided we act as a principal in the transaction. In the event we do not meet the requirements to be considered a principal in the software sale transaction and act as an agent, the revenue is recorded on a net basis. Software revenue is expected to fluctuate from quarter to quarter depending on our customers' demand for our partners' software products. Generally, spending on software sales is a strong indicator of future spending on software services.

*Cost of Revenue*

Cost of revenue consists primarily of salaries and benefits associated with our technology professionals and subcontractors. Cost of revenue also includes third-party software costs, reimbursable expenses and other unreimbursed project related expenses. Project related expenses will fluctuate generally depending on outside factors including the cost and frequency of travel and the location of our customers. Cost of revenue does not include depreciation of assets used in the production of revenues.

*Gross Margins*

Our gross margins for services are affected by the utilization rates of our professionals, defined as the percentage of our professionals' time billed to customers divided by the total available hours in the respective period, the salaries we pay our consulting professionals and the average billing rate we receive from our customers. If a project ends earlier than scheduled or we retain professionals in advance of receiving project assignments, or if demand for our services declines, our utilization rate will decline and adversely affect our gross margins. As the information technology software and services industry has recovered from the protracted downturn experienced in 2001 and 2002, we have seen an improvement in our utilization rates while our billing, retention and base salary rates have remained relatively stable. Subject to fluctuations resulting from our acquisitions, we expect these key metrics of our services business to remain relatively constant for the foreseeable future assuming there are no further declines in the demand for information technology software and services. Gross margin percentages of third party software sales are typically much lower than gross margin percentages for services and the mix of services and software for a particular period can significantly impact total combined gross margin percentage for such period. In addition, gross margin for software sales can fluctuate due to pricing and other competitive pressures.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses consist of cash and non-cash compensation for sales, executive and administrative employees, training, sales and marketing activities, investor relations, recruiting, travel costs and expenses, and miscellaneous expenses. Non-cash compensation includes stock compensation expenses arising from various option grants to employees with exercise prices below fair market value at the date of grant and compensation expense associated with unvested stock options assumed in business combinations. Such stock compensation is generally expensed across the vesting periods of the related equity grants. We work to minimize selling costs by focusing on repeat business with existing customers and by accessing sales leads generated by our software company partners, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our selling costs and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements.

*Quarterly Fluctuations*

Our quarterly operating results are subject to seasonal fluctuations. Our fourth and first quarters include the months of December and January, when billable services activity by professional staff, as well as engagement decisions by clients, may be reduced due to client budget planning cycles. Demand for our services generally has been lower in the fourth quarter due to reduced activity during the holiday season. Our results will also fluctuate, in part, based on whether we succeed in counterbalancing periodic declines in services revenues when a project or engagement is completed or cancelled by entering into arrangements to provide additional services to the same clients or others. Software sales tend to show some seasonality as well, in that we tend to see higher software demand during the third and fourth quarter of the calendar year due to client budget planning and usage cycles, though this is not always the case. These and other seasonal factors may contribute to fluctuations in our operating results from quarter to quarter.

*Plans for Growth & Acquisitions*

Our goal is to be the leading independent information technology consulting firm in the central United States through, among other things, expanding our relationships with existing and new clients, expanding our operations in the central United States and continuing to make disciplined acquisitions. We believe the central United States represents an attractive market for growth, both organically and through acquisitions. As demand for our services grows in the central United States, we believe we will attempt to increase the number of professionals in our nine central United States offices to meet such demand and, as a result, increase our services revenue. In addition, we believe our track record for identifying attractive acquisitions and our ability to integrate acquired businesses helps us successfully complete acquisitions efficiently and productively, while continuing to offer quality services to our clients, including new clients resulting from the acquisitions.

Consistent with our strategy of growth through disciplined acquisitions, during 2004 we consummated three acquisitions: Genisys on April 2, 2004; Meritage on June 18, 2004; and ZettaWorks on December 20, 2004. The operating results of these businesses have been included in our consolidated operating results from the respective dates of acquisition. They significantly affected the comparability of our 2004 operating results to those of prior years, and they will continue to affect the comparability of our results in 2005, when they are included in our operating results for the full year.

**Results of Operations****Summary Table**

The following table summarizes our results of operations as a percentage of total services and software revenue:

|   | <b>Year Ended December 31,</b> |              |              |
|---|--------------------------------|--------------|--------------|
|   | <b>2002</b>                    | <b>2003</b>  | <b>2004</b>  |
| Services revenue  | 98.1%                          | 86.6%        | 76.7%        |
| Software revenue  | 1.9                            | 13.4         | 23.3         |
| Reimbursed expenses                                       | 8.0                            | 6.6          | 4.2          |
| <b>Total revenue</b>                                      | <b>108.0</b>                   | <b>106.6</b> | <b>104.2</b> |
| Cost of revenue   |                                |              |              |
| Project personnel costs                                   | 53.9                           | 47.4         | 46.1         |
| Software costs  | 1.6                            | 10.9         | 20.1         |
| Reimbursable expenses                                     | 8.0                            | 6.6          | 4.2          |
| Other project related expenses                            | 1.6                            | 1.6          | 0.5          |
| <b>Total cost of revenue</b>                              | <b>65.1</b>                    | <b>66.4</b>  | <b>70.8</b>  |
| Services gross margin                                     | 43.4                           | 43.5         | 39.2         |
| Software gross margin                                     | 14.9                           | 18.6         | 13.9         |
| <b>Total gross margin</b>                                 | <b>42.9</b>                    | <b>40.2</b>  | <b>33.3</b>  |
| Selling, general and administrative                       | 41.2                           | 28.2         | 19.5         |
| Depreciation and amortization                             | 9.5                            | 4.5          | 2.1          |
| Restructuring, severance, and other                       | 2.8                            | 0.0          | 0.0          |
| <b>Income (loss) from operations</b>                      | <b>(10.6)</b>                  | <b>7.4</b>   | <b>11.6</b>  |
| Interest expense, net                                     | (0.9)                          | (1.0)        | (0.2)        |
| <b>Income (loss) before income taxes</b>                  | <b>(11.5)</b>                  | <b>6.4</b>   | <b>11.4</b>  |
| Provision for income taxes                                | 0.0                            | 2.7          | 4.5          |
| <b>Net income (loss)</b>                                  | <b>(11.5)</b>                  | <b>3.7</b>   | <b>6.9</b>   |
| Beneficial conversion charge on preferred stock           | (8.0)                          | 0.0          | 0.0          |
| Accretion of dividends on preferred stock                 | (0.8)                          | (0.6)        | 0.0          |
| <b>Net income (loss) available to common stockholders</b> | <b>(20.3)%</b>                 | <b>3.2%</b>  | <b>6.9%</b>  |

**Year Ended December 31, 2004 compared to Year Ended December 31, 2003**

*Revenue.* Total revenue increased 95% to \$58.8 million for the year ended December 31, 2004 from \$30.2 million for the year ended December 31, 2003. Services revenue increased 77% to \$43.3 million in 2004 from \$24.5 million in 2003. The increase in services revenue resulted from increases in average project size and quantity of projects. These increases were largely attributable to the acquisitions of Genisys, Meritage and ZettaWorks which accounted for \$7.5 million, \$6.9 million and \$0.3 million, respectively, of services revenue for the year ended December 31,



2004. The utilization rate of our professionals, excluding subcontractors, also increased to 83% for the year ended December 31, 2004 from 76% for the year ended December 31, 2003. For the years ended December 31, 2004 and 2003, 17% and 35%, respectively, of our revenue was derived from IBM. Software revenue increased 248% to \$13.2 million in 2004 from \$3.8 million in 2003 due to increased customer demand. Reimbursed expenses increased 25% to \$2.3 million in 2004 from \$1.9 million in 2003.

*Cost of Revenue.* Cost of revenue increased 113% to \$40.0 million for the year ended December 31, 2004 from \$18.8 million for the year ended December 31, 2003. The increase in cost of revenue is attributable to an increase in the number of professionals, due to hiring and the acquisitions of Genisys, Meritage and ZettaWorks. The average number of professionals performing services, including subcontractors, increased to 220 for the year ended December 31, 2004 from 121 for the year ended December 31, 2003. Also, costs associated with software sales increased 268% to \$11.3 million in 2004 in connection with increased software revenue in 2004 compared to 2003.

*Gross Margin.* Gross margin increased 65% to \$18.8 million for the year ended December 31, 2004 from \$11.4 million for the year ended December 31, 2003. Gross margin as a percentage of revenue, excluding reimbursed expenses, decreased to 33% in 2004 from 40% in 2003. The decrease in gross margin as a percentage of revenue is primarily due to the increase in software revenue in proportion to total revenue, which typically yields a lower margin than our services revenue. Services gross margin decreased slightly to 39.2% in 2004 from 43.5% in 2003 primarily due to lower gross margins on consulting services contracts acquired in the acquisitions of Genisys, Meritage and ZettaWorks. Software gross margin decreased to 13.9% in 2004 from 18.6% in 2003 primarily as a result of fluctuation in selling prices to customers based on competitive pressures and fluctuation in vendor pricing based on market conditions at the time of the sales.

*Selling, General and Administrative.* Selling, general and administrative expenses increased 40% to \$11.1 million for the year ended December 31, 2004 from \$8.0 million for the year ended December 31, 2003 due primarily to the increases in sales personnel, management personnel, support personnel and facilities related to the acquisitions of Genisys, Meritage and ZettaWorks. However, selling, general and administrative expenses as a percentage of revenue decreased to 19.5% for the year ended December 31, 2004 from 28.2% for the year ended December 31, 2003. The decrease in selling, general and administrative expenses as a percentage of revenue is the result of an increase in sales of third party software, for which there are generally less incremental costs, as well as a general reduction of costs in proportion to total revenue during the applicable periods.

*Depreciation.* Depreciation expense decreased 24% to \$512,000 during 2004 from \$670,000 during 2003. The decrease is due to a general decrease in purchases of fixed assets along with an increasing number of fully depreciated assets.

*Intangibles Amortization.* Intangibles amortization expense, arising from acquisitions, increased 14% to approximately \$696,000 for the year ended December 31, 2004 from approximately \$610,000 for the year ended December 31, 2003. The increase in amortization expense reflects the acquisition of intangibles from Genisys and Meritage, partially off-set by the end of the assigned three-year useful life relating to intangibles for the acquisition of Compete in May 2000 and the acquisition of Core Objective in November 2000.

*Interest Expense.* Interest expense decreased 52% to \$137,000 for the year ended December 31, 2004 compared to \$286,000 during the year ended December 31, 2003. The decrease in interest expense is due to decreases in the principal balances on the notes payable issued in our acquisition of Javelin and our accounts receivable line of credit since the same period in 2003. These decreasing balances are partially off-set by the interest expense now being incurred on the newly funded acquisition line of credit which was drawn down in connection with the acquisitions of Meritage in June 2004 and ZettaWorks in December 2004.

*Provision for Income Taxes.* We accrue a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our tax provision rate decreased to 39% for the year ended December 31, 2004 from 42% for the year ended December 31, 2003 as a result of a decrease in non-deductible expenses. We have deferred tax assets resulting from net operating losses of acquired companies amounting to approximately \$3.3 million for which we have a valuation allowance of \$3.0 million. The remaining deferred tax asset of \$0.3 million is completely off-set by deferred tax liabilities of \$0.7 million related to identifiable intangibles and cash to accrual adjustments from the

Genisys acquisition. Any reversal of the valuation allowance on the deferred tax assets will be adjusted against goodwill and will not have an impact on our statement of operations. All of the net operating losses relate to acquired entities, and as such are subject to annual limitations on usage under the change in control provisions of the Internal Revenue Code.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**

*Revenue.* Total gross revenue increased 34.5% to \$30.2 million for the year ended December 31, 2003 from \$22.5 million for the year ended December 31, 2002. Services revenue increased 20.3% to \$24.5 million in 2003 from \$20.4 million in 2002. The increase in services revenue resulted from an increase in the average project size and the number of projects. These increases were largely attributable to the April 2002 acquisitions of Vertecon and Javelin, which impacted revenue for the full period in 2003. For the years ended December 31, 2003 and 2002, 35% of our revenue was derived from IBM. Software revenue increased 839.9% to \$3.8 million in 2003 from \$0.4 million in 2002. Reimbursable expenses increased slightly to \$1.9 million in 2003 from \$1.7 million in 2002.

*Cost of Revenue.* Cost of revenue increased 39.3% to \$18.8 million for the year ended December 31, 2003 from \$13.5 million for the year ended December 31, 2002. The increase in cost of revenue is due to the increase in average salaries of our employees as compared to the same period in 2002, as well as an increase in the number of billable employees, and the increase in headcount as a result of the acquisitions of Vertecon and Javelin in April 2002 being included in the full year for 2003. In addition, costs associated with software sales increased by \$2.7 million in connection with the increased software revenue in 2003 compared to 2002.

*Gross Margin.* Gross margin increased 27.7% to \$11.4 million for the year ended December 31, 2003 from \$8.9 million for the year ended December 31, 2002. Gross margin as a percentage of revenue decreased to 40% in 2003 from 43% in 2002. The decrease in gross margin as a percentage of revenue is primarily due to the increase in software sales revenue in proportion to total revenue, which typically yields a lower margin than our services revenue. Services gross margin was 43% in 2003 and 2002. Software gross margin was 19% in 2003 and 15% in 2002.

*Selling, General and Administrative.* Selling, general and administrative expenses decreased 6.7% to \$8.0 million for the year ended December 31, 2003 from \$8.6 million for the year ended December 31, 2002. The decrease is the result of deliberate cost reductions, including a \$292,000 reduction in administrative salaries and benefits, a \$189,000 reduction in computer equipment leasing costs and other information technology related expenses, which were partially offset by a \$151,000 increase in office costs resulting from the inclusion of Javelin and Vertecon expenses for the full period in 2003, and a \$150,000 increase in costs related to the 2003 company meeting. Selling, general and administrative expenses as a percentage of revenue decreased to 28% for the year ended December 31, 2003 from 41% for the year ended December 31, 2002. The decrease in selling, general and administrative expenses as a percentage of revenue is the result of an increase in software sales, for which there are generally less incremental costs, as well as a general reduction of costs in proportion to total revenue during the applicable periods.

*Depreciation.* Depreciation expense decreased slightly to \$670,000 during 2003 from \$688,000 during 2002. The decrease is due to a general decrease in purchases along with an increasing number of fully depreciated assets.

*Restructuring.* During 2002, we implemented certain workforce reductions and office closures resulting in charges of \$579,000, consisting of severance pay and related benefits for former employees, as well as costs associated with the closure of our London office. We recognized approximately \$118,000 in restructuring expenses during 2002 related to the closure of our London office, which consisted of severance and benefits, lease commitments, as well as expected losses on the disposal of fixed assets, attorney and accounting fees, and other costs. As part of these restructurings, we reduced our workforce by a total of 30 employees, 17 of which were technology professionals and 13 of which were involved in

selling, general administration and marketing. As of December 31, 2002, approximately \$228,000 of restructuring costs are included in other current liabilities, all of which were paid during 2003. There was no workforce restructuring during 2003.

*Intangibles Amortization.* Intangibles amortization expense consists of amortization of intangibles arising from our acquisitions of Compete in May 2000, Core Objective in November 2000, and Vertecon and Javelin in April 2002. Amortization decreased 52.5% to \$610,000 during the year ended December 31, 2003 from \$1.3 million during the year ended December 31, 2002. The decrease in amortization expense reflects the end of the assigned three-year useful life for the Compete and Core Objective intangible assets.

*Interest Expense.* Interest expense increased 40.5% to \$286,000 for the year ended December 31, 2003 compared to \$204,000 during the year ended December 31, 2002. The increase in interest expense is due to increases of approximately \$31,000 related to capital leases, approximately \$9,000 related to imputed interest expense on the notes issued to the Javelin shareholders, and approximately \$43,000 in bank audit fees, letter of credit renewal fees, and other costs associated with our line of credit.

*Provision for Income Taxes.* Our 2003 income tax provision was accrued for federal, state and foreign income taxes at the applicable statutory rates. The 2003 income tax provision differed from the statutory rate primarily due to non-deductible expenses and the use of net operating losses (other than those related to acquired entities) that were previously subject to a valuation allowance. All net operating losses remaining as of December 31, 2003 relate to acquired entities and as such are subject to annual limitations on usage under the change in control provisions of the Internal Revenue Code. Accordingly, a valuation allowance has been established. Any decrease in the valuation allowance will be applied first to reduce goodwill and then to reduce other acquisition related non-current intangible assets to zero. Any remainder would be recognized a reduction of income tax expense. There was no income tax provision for 2002 as a result of the net loss for that period.

#### **Liquidity And Capital Resources**

Selected measures of liquidity and capital resources are as follows:

|                           | <b>As of<br/>December 31,</b> |             |
|---------------------------|-------------------------------|-------------|
|                           | <b>2003</b>                   | <b>2004</b> |
|                           | <b>(In millions)</b>          |             |
| Cash and cash equivalents | \$ 2.0                        | \$ 3.9      |
| Working capital           | \$ 4.0                        | \$ 9.2      |

#### ***Net Cash Provided By Operating Activities***

We expect to fund our operations during 2005 from cash generated from operations and short-term borrowings as necessary from our credit facility. We believe that these capital resources will be sufficient to meet our needs for at least the next twelve months. Net cash generated by operations for the year ended December 31, 2004 increased 114% to \$4.0 million from \$1.9 million for the year ended December 31, 2003.

Accounts receivable, net of allowance for doubtful accounts, totaled \$20.0 million at December 31, 2004, representing approximately 65 days of sales outstanding, excluding end-of-quarter software sales, compared to \$5.5 million, or 64 days at December 31, 2003.

A significant amount of our revenue is derived from IBM. Accordingly, our accounts receivable generally includes significant amounts due from IBM. As of December 31, 2004, approximately 11% of our accounts receivable was due from IBM.

***Net Cash Used in Investing Activities***

For the year ended December 31, 2004, we used \$10.7 million in cash, net of cash acquired, to acquire Genisys, Meritage and ZettaWorks and used \$430,000 to purchase equipment fixed assets.

***Estimated Net Cash from this Stock Offering***

We estimate that the net proceeds from the sale of 4,250,000 shares of our common stock pursuant to this offering will be approximately \$            million, after deducting underwriting discounts and commissions and estimated offering expenses. We expect to use a substantial portion of the net proceeds from this offering for expansion of our business, including future acquisitions. We will also use a portion of the net proceeds from this offering to repay all amounts outstanding under our credit facility with Silicon Valley Bank. We will use any remaining net proceeds from this offering for working capital and other general corporate purposes.

***Availability of Funds from Bank Line of Credit Facilities***

We have a \$13.0 million credit facility with Silicon Valley Bank which includes a \$9.0 million accounts receivable line of credit and a \$4.0 million acquisition term line of credit. We amended this credit facility on January 31, 2005 to increase the accounts receivable line of credit from \$6.0 million to \$9.0 million. The accounts receivable line of credit, which expires in December 2005, allows us to borrow up to an amount equal to 80% of eligible accounts receivable, as defined in the agreement, but in no event more than \$9.0 million. Borrowings under this line of credit bear interest at the bank's prime rate plus 1.00%, or 5.75%, as of December 31, 2004. As of December 31, 2004, there were no amounts outstanding under the accounts receivable line of credit.

Our \$4.0 million term acquisition line of credit with Silicon Valley Bank provides an additional source of financing for certain qualified acquisitions. As of December 31, 2004 the balance outstanding under this acquisition line of credit was approximately \$3.8 million. Borrowings under this acquisition line of credit bear interest equal to the average four year U.S. Treasury note yield plus 3.50% the initial \$2.5 million draw, of which \$2.3 million remains outstanding, bears interest of 7.11% and the subsequent \$1.5 million draw, all of which remains outstanding, bears interest of 6.90% as of December 31, 2004 and are repayable in thirty-six equal monthly installments. We are entitled to make payments of accrued interest only for the first three monthly installments.

We are required to comply with various financial covenants under our Silicon Valley Bank credit facility. We are required to maintain a minimum tangible net worth of at least \$3,000,000, to maintain a ratio of after tax earnings before interest, depreciation and amortization, annualized, to current maturities of long-term debt plus interest of at least 1.50 to 1.00, and, pursuant to the January 31, 2005 amendment, to maintain a ratio of cash plus accounts receivable including 50% of unbilled revenue to all outstanding obligations to the bank of at least 1.50 to 1.00. As of December 31, 2004, we were in compliance with all covenants under this credit facility.

***Contractual Obligations***

In connection with certain of our acquisitions, we were required to establish various letters of credit totaling \$550,000 with Silicon Valley Bank and \$65,000 with Key Bank to serve as collateral for certain office space and equipment leases. We expect to retire the Key Bank letter of credit in the first half of 2005. The letters of credit with Silicon Valley Bank reduce the borrowings available under our line of credit with Silicon Valley Bank. One letter of credit of \$300,000 will remain in effect through 2005, and the other letter of credit of \$250,000 will remain in effect through 2007.

In connection with the acquisition of Javelin, we issued \$1.5 million in notes, \$1 million of which was payable in four equal annual installments on the anniversary of the closing date of the acquisition in April 2002. The other \$500,000 is payable in eight equal quarterly installments that commenced in July

2002. We paid \$125,000 in 2002, \$500,000 in 2003 and \$375,000 in 2004. Accordingly, annual installments of \$250,000 remain to be paid in each of 2005 and 2006.

We have incurred commitments to make future payments under contracts such as leases and certain long-term liabilities. Maturities, excluding interest, under these contracts are set forth in the following table as of December 31, 2004:

| Contractual Obligations                        | Total    | Payment Due by Period |           |           |                   |
|--|----------|-----------------------|-----------|-----------|-------------------|
|  |          | Less Than 1 Year      | 1-3 Years | 3-5 Years | More Than 5 Years |
| (In thousands)                                 |          |                       |           |           |                   |
| Long-term debt obligations, excluding interest | \$ 4,281 | \$ 1,379              | \$ 2,765  | \$ 137    |                   |
| Operating lease obligations                    | \$ 3,677 | \$ 1,516              | \$ 1,613  | \$ 548    |                   |

If our capital, including proceeds from this offering, is insufficient to fund our activities in either the short or long term, we may need to raise additional funds. In the ordinary course of business, we may engage in discussions with various persons in connection with additional financing. If we raise additional funds through the issuance of equity securities, our existing stockholders' percentage ownership will be diluted. These equity securities may also have rights superior to our common stock. Additional debt or equity financing may not be available when needed or on satisfactory terms. If adequate funds are not available on acceptable terms, we may be unable to expand our services, respond to competition, pursue acquisition opportunities or continue our operations.

#### **Critical Accounting Policies**

##### ***Revenue Recognition and Allowance for Doubtful Accounts***

Consulting revenues are comprised of revenue from professional services fees recognized primarily on a time and materials basis as performed. For fixed fee engagements, revenue is recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. Our normal payment terms are net 30 days. Our agreement with IBM provides for net 60 days payment terms. Reimbursements for out-of-pocket expenses are included in gross revenue. Revenue from the sale of third-party software is recorded on a gross basis provided that we act as the principal in the transaction. In the event we do not meet the requirements to be considered the principal in the software sale transaction, we record the revenue on a net basis. There is no effect on net income between recording the software sales on a gross basis versus a net basis. We assess our allowance for doubtful accounts at each financial reporting date based on expected losses on uncollectible accounts receivable with known facts and circumstances for the respective period.

##### ***Goodwill and Other Intangible Assets***

We adopted Statement of Financial Accounting Standards, or SFAS, No. 142, *Goodwill and Other Intangible Assets* (Statement 142) on January 1, 2002. In accordance with Statement 142, we replaced the ratable amortization of goodwill with a periodic review and analysis of such intangibles for possible impairment. In accordance with Statement 142, we assess our goodwill on October 1 of each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Business acquisitions typically result in goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. The determination of the value of such intangible assets requires us to make estimates and assumptions that affect our consolidated financial statements. We assess potential impairments to intangible assets on an annual basis or when there is evidence that events or changes in circumstances indicate that the

carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of the acquired businesses, market

conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with the acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations by decreasing net income.

#### ***Accounting for Stock-Based Compensation***

We account for our employee stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion, or APB, No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. We also make disclosures regarding employee stock-based compensation using the fair value method in accordance with SFAS No. 123, *Accounting for Stock Based Compensation*. Accordingly, compensation cost is recognized only when options are granted below market price on the date of grant. Had compensation cost for our stock compensation plans been determined based on fair value at the grant dates for awards under these plans consistent with SFAS 123, our net income and earnings per share would have been reduced to pro forma amounts indicated in the notes to our financial statements included in this prospectus. Option valuation models incorporate highly subjective assumptions. Because changes in the subjective assumptions can materially affect the fair value estimate, the existing models do not necessarily provide a single reliable measure of the fair value of our employee stock options.

#### ***Income Taxes***

Management believes that our net deferred tax asset should continue to be reduced by a full valuation allowance. Future operating results and projections could alter this conclusion, potentially resulting in an increase or decrease in the valuation allowance. Since the valuation allowance relates solely to net operating losses from acquired companies which are subject to usage limitations, any decrease in the valuation allowance will be applied first to reduce goodwill and then to reduce other acquisition related non-current intangible assets to zero. Any remaining decrease in the valuation allowance would be recognized as a reduction of income tax expense.

#### **Recent Accounting Pronouncements**

On December 16, 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), *Share-Based Payment* ( Statement 123(R) ). Statement 123(R) replaces Statement No. 123, *Accounting for Stock-Based Compensation*, supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement No. 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values (*i.e.*, pro forma disclosure is no longer an alternative to financial statement recognition). We are required to adopt Statement 123(R) for the fiscal quarter ending September 30, 2005. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition of the fair value of employee stock incentive awards. See Note 2 in our Notes to the Consolidated Financial Statements for the year ended December 31, 2004 for the pro forma net income and net income (loss) per share amounts, for the years ended December 31, 2003 and 2004 as if we had used a fair-value-based method similar to the methods required under Statement 123(R) to measure compensation expense for awards in those years. Although we have not yet determined whether the adoption of Statement 123(R) will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123, we are evaluating the requirements under Statement 123(R) and we expect the adoption to have a significant adverse impact on our consolidated statements of income and net income per share.



## BUSINESS

### Overview

We are a rapidly growing information technology consulting firm serving Global 2000 and midsize companies in the central United States. We help our clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. We design, build and deliver software solutions using a core set of software products developed by our partners. These products, which are based on open standards such as the Java 2 Enterprise Edition, or J2EE, are commonly referred to as middleware and include application servers, enterprise application integration platforms, business process management, business activity monitoring and business intelligence applications and enterprise portal software. Using these products, our solutions enable our clients to operate a real-time enterprise that dynamically adapts business processes and the systems that support them to the changing demands of an increasingly global, Internet-driven and competitive marketplace.

Through our experience in developing and delivering eBusiness integration solutions for more than 380 Global 2000 and midsize companies, we have acquired significant domain expertise that we believe differentiates our firm. We use small, expert project teams that we believe deliver high-value, measurable results by working collaboratively with clients and their partners through a user-centered, technology-based and business-driven solutions methodology. We believe this approach enhances return-on-investment for our clients by significantly reducing the time and risk associated with designing and implementing eBusiness integration solutions.

We believe that the central United States represents an attractive geographic market and that our focus on this region and our network of nine offices throughout the central United States are additional competitive differentiators. We believe this geographic focus makes us the partner of choice both for Global 2000 and midsize companies in the area that seek business and technology consulting services and for software vendors that seek consulting firm partners to sell and deliver solutions that use their products.

We place strong emphasis on building lasting relationships with clients. In fiscal years 2002, 2003 and 2004, 81%, 85% and 91% of revenue, respectively, excluding from the calculation for any single period revenue from acquisitions completed in that single period, was derived from customers that were clients in the prior year. We have also built meaningful partnerships with software providers, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our cost of sales and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements.

We are expanding through a combination of organic growth and acquisitions and completed three acquisitions in 2004 - Genisys in April 2004, Meritage in June 2004 and ZettaWorks in December 2004. We believe that information technology consulting is a fragmented industry and that there are a substantial number of privately held information technology consulting firms in our target markets that can be acquired on financially accretive terms. We have a track record of successfully identifying, executing and integrating acquisitions that add strategic value to our business. Over the past five years, we have acquired and integrated seven privately held information technology consulting firms, three of which were acquired in 2004. We believe that we can achieve significantly faster growth in revenues and profitability through a combination of organic growth and acquisitions than we could through organic growth alone.

## Industry Background

A number of factors are shaping the information technology industry and, in particular, the market for our information technology consulting services:

*United States Economic Recovery.* The years 2001 and 2002 saw a protracted downturn in information technology spending as a result of an economic recession in the United States and the collapse of the Internet bubble. The information technology consulting industry began to experience a recovery in the second half of 2003 which continued through 2004. The industry is benefiting from the overall improvement in the United States economy as well as a need by businesses to continue the transformation that they began in the 1990s with the commercialization of the Internet. It is expected that information technology services spending will continue to increase in the foreseeable future. According to independent market research firm IDC, total information technology services spending in the United States is expected to increase 6.4% in 2005 to \$272 billion and to achieve a 6.7% compound annual growth rate through 2008.

*Need to Rationalize Complex, Heterogeneous Enterprise Technology Environments.* Over the past 15 years, the information systems of many Global 2000 and midsize companies have evolved from traditional mainframe-based systems to include distributed computing environments. This evolution has been driven by the benefits offered by distributed computing, including lower incremental technology costs, faster application development and deployment, increased flexibility and improved access to business information. Organizations have also widely installed enterprise resource planning, or ERP, supply chain management, or SCM, and customer relationship management, or CRM, applications in order to streamline internal processes and enable communication and collaboration.

As a result of investment in these different technologies, organizations now have complex, heterogeneous enterprise technology environments with incompatible technologies and high costs of integration. These increases in complexity, cost and risk, combined with the business and technology transformation caused by the commercialization of the Internet, have created demand for information technology consultants with experience in enabling the integration of disparate platforms and leveraging Internet-based technologies to support business and technology goals.

*Increased Competitive Pressures.* Over the past five years, the marketplace has become increasingly global, Internet-driven and competitive. To gain and maintain a competitive advantage in this environment, Global 2000 and midsize companies seek real-time access to critical business applications and information that enables quality business decisions based on the latest possible information, flexible business processes and systems that respond quickly to market opportunities, improved quality and lower cost customer care through online customer self-service and provisioning, reduced supply chain costs and improved logistics through processes and systems integrated online to suppliers, partners and distributors and increased employee productivity through better information flow and collaboration.

Enabling these business goals requires integrating, automating and extending business processes, technology infrastructure and software applications end-to-end within an organization and with key partners, suppliers and customers. This requires the ability not only to integrate the numerous disparate information resource types, databases, legacy mainframe applications, packaged application software, custom applications, trading partners, people and Web services, but also to manage the business processes that govern the interactions between these resources so that organizations can engage in real-time business. Real-time business refers to the use of current information in business to execute critical business processes.

These factors are driving increased spending on software and related consulting services in the areas of application integration, middleware and portals, or AIMP, as these segments play critical roles in the integration between new and extant systems and the extension of those systems to customers, suppliers and partners via the Internet. Companies are expected to increase software spending on

integration broker suites, enterprise portal services, application platform suites and message-oriented middleware. Gartner Dataquest, or Gartner, an independent market research firm, projects that growth in these specific sub-segments within the AIMP software area will outpace general software spending. Gartner expects worldwide spending in these four specific software sub-segments to increase from approximately \$4.33 billion in 2004 to \$6.67 billion in 2007, a compound annual growth rate of 15.5%. As companies increase spending on software, their overall spending on services will also increase, often by a multiple of each dollar spent on software. For example, IDC projects that in 2005, across 17 industries, spending on services, as a multiple of software spending, will range from a high of 3.19 to a low of 1.28, with an average of 2.14.

### **Competitive Strengths**

We believe our competitive strengths include:

*Domain Expertise.* Through our experience developing and delivering solutions for more than 380 Global 2000 and midsize companies, we have acquired significant domain expertise in a core set of eBusiness solutions, applications and software platforms. These solutions include eBusiness infrastructure, enterprise portals, ecommerce platforms, eCRM and supply chain Web enablement. The applications include enterprise application integration software, business process management and business activity monitoring applications and enterprise portal software. The platforms in which we have significant domain expertise and on which these solutions are built include IBM WebSphere, TIBCO BusinessWorks and Microsoft.NET.

*Delivery Model and Methodology.* We believe our significant domain expertise enables us to provide high-value solutions through small, expert project teams that deliver measurable results by working collaboratively with clients through a user-centered, technology-based and business-driven solutions methodology. Our eNable Methodology, a unique and proven execution process map we developed, allows for repeatable, high quality services delivery. The eNable Methodology leverages the thought leadership of our senior strategists and practitioners to support the client project team and focuses on transforming our clients business processes to provide enhanced customer value and operating efficiency, enabled by Web technology. As a result, we believe we are able to offer our clients the dedicated attention that boutiques usually provide and the delivery and project management that larger firms usually offer.

*Client Relationships.* We have built a track record of quality solutions and client satisfaction through the timely, efficient and successful completion of numerous projects for our clients. As a result, we have established long-term relationships with many of our clients who continue to engage us for additional projects and serve as excellent references for us. In fiscal years 2002, 2003 and 2004, 81%, 85% and 91% of revenue, respectively, excluding from the calculation for any single period revenue from acquisitions completed in that single period, was derived from customers that were clients in the prior year.

*Vendor Partnerships and Endorsements.* We have built meaningful partnerships with software providers, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our cost of sales and sales cycle times and increase win rates by leveraging our partners marketing efforts and endorsements. We also serve as a sales channel for our partners, helping them market and sell their software products. We are a Premier IBM business partner, a TeamTIBCO partner and a Microsoft Gold Certified Partner.

*Geographic Focus.* With nine offices spanning the central United States from Houston, Texas, to Detroit, Michigan, we focus on Global 2000 and midsize companies that have a presence in the central United States. We believe this geographic focus helps position us as the provider of choice for these companies in the area that are seeking business and technology consulting

services and for software vendors that seek consulting firm partners to sell and deliver solutions that leverage their products.

*Emerging Offshore Capability.* Our recently acquired subsidiary, Perficient ZettaWorks, Inc. maintains a small offshore development facility in Bitoli, Macedonia. Through this facility we contract with a team of professionals with expertise in IBM, TIBCO and Microsoft technologies and with specializations that include application development, adapter and interface development, quality assurance and testing, monitoring and support, product development, platform migration, and portal development. This expertise, as well as our partnerships with offshore services providers based in India, will enable us to more effectively deliver our solutions.

### **Our Solutions**

We help clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. Our solutions enable these benefits by developing, integrating, automating and extending business processes, technology infrastructure and software applications end-to-end within an organization and with key partners, suppliers and customers. This provides real-time access to critical business applications and information and a scalable, reliable, secure and cost-effective technology infrastructure that enables clients to:

- give managers and executives the information they need to make quality business decisions and dynamically adapt their business processes and systems to respond to client demands, market opportunities or business problems;

- improve the quality and lower the cost of customer acquisition and care through Web-based customer self-service and provisioning;

- reduce supply chain costs and improve logistics by flexibly and quickly integrating processes and systems and making relevant real-time information and applications available online to suppliers, partners and distributors;

- increase the effectiveness and value of legacy enterprise technology infrastructure investments by enabling faster application development and deployment, increased flexibility and lower management costs; and

- increase employee productivity through better information flow and collaboration capabilities and by automating routine processes to enable focus on unique problems and opportunities.

Our eBusiness integration solutions include the following:

*eBusiness Infrastructure.* Our eBusiness infrastructure solutions use the latest Internet-based technologies to integrate, leverage and extend our clients' legacy ERP systems. We design, build and deploy infrastructure solutions that are scalable, reliable, secure and cost-effective. We deliver eBusiness infrastructure solutions around all market-leading middleware and EAI platforms/tools. In particular, we maintain an Advanced Technology Services group, which is a 53-person team dedicated exclusively to IBM WebSphere infrastructure solutions.

*Enterprise Portals.* We design, develop, implement and integrate secure and scalable enterprise portals for our clients, their customers, suppliers and partners that include searchable data systems, collaborative systems for process improvement, transaction processing, unified and extended reporting and content management and personalization.

*eCommerce Platforms.* We develop secure and reliable ecommerce infrastructures that dynamically integrate with back-end systems and complementary applications, provide for transaction volume scalability and sophisticated content management.

*eCRM.* We create advanced eCRM solutions that facilitate customer acquisition, service and support, sales, and marketing by understanding our customers' needs through interviews, facilitated requirements gathering sessions and call center analysis, developing an iterative, proto-type driven solution and integrating the solution to legacy processes and applications.

*Supply Chain Web Enablement.* We help companies develop secure, standards-based Internet platforms based on unique design and build requirements to support purchasing, distribution, sales and service with their trading partners.

We conceive, build and implement these solutions through a comprehensive set of services including business strategy, user-centered design, systems architecture, custom application development, technology integration, package implementation and managed services.

The following case studies represent eBusiness integration and middleware solutions delivered to four of our customers.

*eCRM Solution for an Insurance and Financial Services Company.* A Midwestern based division of a large provider of insurance and other financial services retained us to address slowing sales of its group variable life products and rising operating costs due to inefficient customer policy enrollment and customer service processes.

We designed, developed and delivered an effective eEnrollment and eService portal that provides the client with critical online enrollment and customer self-service functionality. Our solution, built on IBM WebSphere, includes online customer self-enrollment with full eSignature capability, single sign-on integration with customer and client portals, enhances case administration capabilities for the client and intuitive calculators and forecasting tools for its customers.

We believe our solution enabled the client to enhance its competitive advantage by offering customers a differentiated Web-based self-service portal and by reducing customer provisioning and support costs. Our solution was designed to eliminate paper forms through paperless workflow capability, reduce call center volume and enable increased sales volume on constant headcount. We believe the benefits of our services to this client included significant cost savings and increased productivity and growth in customer site satisfaction.

*eBusiness Infrastructure Solution for a Television Home Shopping Channel.* A large television home shopping channel based in the midwestern United States retained us to help overcome growth constraints and transaction processing inefficiencies caused by myriad back-end systems serving their broadcast, Internet and direct mail supply chains.

We designed, developed and delivered an enterprise application integration solution that linked 70 disparate back-end distribution, payment and production systems across the company into an efficient, manageable platform. The solution, built on TIBCO BusinessWorks, included a standard transaction protocol across the enterprise, a messaging layer that manages enterprise information flow and a more robust e-commerce engine and platform.

We believe our solution enabled the client to overcome growth constraints and leverage real-time business capabilities to improve supply-chain efficiency. Our solution was designed to enable real-time access to one million transactions per day, including order entry and payment processing tasks and reduce the cost of future integration, development and data access.

*Web-based Budgeting Solution for a Financial Services Company and Brokerage Firm.* A leading brokerage and financial services firm based in the Midwest retained us to help them streamline annual budgeting and planning processes for more than 180 individual branch offices.

We designed, built and delivered a Web-enabled enterprise revenue forecasting and budgeting system. Our solution, built on Microsoft.NET, establishes multi-year revenue projections and estimates appropriate budgets for each branch office, creates scorecards to set compensation metrics for key employees and aggregates annual revenue projections and goals across the company. In connection with delivering this solution, we performed requirements analysis, collected details of data and process flow, designed an object-oriented component architecture and created a testing environment for stress testing to ensure performance under demanding circumstances.

We believe our solution enabled this client to improve its financial planning and budgeting process and improved market responsiveness.

*eBusiness Strategy Engagement for a Specialty Pharmaceutical Company.* A fully integrated specialty pharmaceutical company based in the Midwest engaged us to develop and implement a comprehensive eBusiness strategy for their growing enterprise.

We delivered a three-year eBusiness strategy based on our client's business strategy and emerging trends in the pharmaceutical industry. The strategy focused on maximizing knowledge capital and strengthening customer bonds. We developed an employee portal to deliver business intelligence through executive dashboards and foster knowledge sharing through the aggregation of intellectual assets. We also implemented a customer self service site that now provides 24-hour support to customers seven days a week.

We believe we have created a means for the client to have faster and more in-depth access to key information which will lead to better business decisions. This will enable our client to service their customers in an effective and efficient manner.

In addition to our eBusiness solution services, we offer education and mentoring services to our clients. We operate an IBM-certified advanced training facility in Chicago, Illinois, where we provide our clients both customized and established curriculum of courses and other education services in areas including object-oriented analysis and design immersion, J2EE, user experience, MQSeries, VisualAge Generator and Wireless, and an IBM Course Suite with over 20 distinct courses covering the IBM WebSphere product suite including WebSphere Application Server, WebSphere Commerce, WebSphere Portal, and VisualAge for Java/WebSphere Studio Application Developer. We also leverage our education practice and training facility to provide continuing education and professional development opportunities for our colleagues.

#### **Our Solutions Methodology**

Our approach to solutions design and delivery is user-centered, technology-based and business-driven and is executed through a methodology, which we refer to as the eNable Methodology, that is:

iterative and results oriented;

centered around a flexible and repeatable framework;

collaborative and customer-centered in that we work with not only our clients but with our clients' customers in developing our solutions;

focused on delivering high value, measurable results; and

grounded by industry leading project management.

The eNable Methodology allows for repeatable, high quality services delivery through a unique and proven execution process map. Our methodology is grounded in a thorough understanding of our clients' overall business strategy and competitive environment. The eNable Methodology leverages the thought leadership of our senior strategists and practitioners and focuses on transforming our clients' business processes, applications and technology infrastructure. The eNable Methodology approach focuses on

business value or return-on-investment, with specific objectives and benchmarks established at the outset.

### **Our Strategy**

Our goal is to be the leading independent information technology consulting firm in the central United States. To achieve our goal, our strategy is to:

*Grow Relationships with Existing and New Clients.* We intend to continue to solidify and expand enduring relationships with our existing clients and to develop long-term relationships with new clients by providing our customers with solutions that generate a demonstrable, positive return-on-investment. Our incentive plan rewards our project managers to work in conjunction with our sales people to expand the nature and scope of our engagements with existing clients.

*Continue Making Disciplined Acquisitions.* The information technology consulting market is a fragmented industry and we believe there are a substantial number of smaller privately held information technology consulting firms that can be acquired on financially accretive terms. We have a track record of successfully identifying, executing and integrating acquisitions that add strategic value to our business. Our established culture and infrastructure positions us to successfully integrate each acquired company, while continuing to offer effective solutions to our clients. Over the past five years, we have acquired and successfully integrated seven privately held information technology consulting firms. We continue to actively look for attractive acquisitions that leverage our core expertise, particularly in the central United States, and look to expand our capabilities and geographic presence, including offshore.

*Expand in the central United States.* We believe the central United States represents an attractive geographic market for organic growth and we plan on expanding further in this region. We currently have nine offices in the central United States and expect to grow the number of professionals in these offices as our business expands. In addition, we expect to grow our presence in the central United States through targeted acquisitions.

*Enhance Brand Visibility.* Our focus on a core set of eBusiness solutions, applications and software platforms and a targeted customer and geographic market has given us significant market visibility for a firm of our size. In addition, we believe we have in the past year achieved critical mass in size, which has significantly enhanced our visibility among prospective clients, employees and software vendors. As we continue to grow our business, we intend to increase our marketing activities to highlight our thought leadership in eBusiness solutions and infrastructure software technology platforms.

*Invest in Our People and Culture.* We have cultivated a culture built on teamwork, a passion for technology and client service, and a focus on cost control and the bottom line. As a people-based business, we continue to invest in the development of our professionals and to provide them with entrepreneurial opportunities and career development and advancement. Our technology, business consulting and project management councils ensure that each client team learns best practices being developed across the company and our recognition program rewards teams for implementing those practices. We believe this results in a team of motivated professionals armed with the ability to deliver high-quality and high-value services for our clients.

*Leverage Existing and Pursue New Strategic Alliances.* We intend to continue to develop alliances that complement our core competencies. Our alliance strategy is targeted at leading business advisory companies and technology providers and allows us to take advantage of compelling technologies in a mutually beneficial and cost-competitive manner. Many of these relationships, and in particular IBM, also lead to a sales channel whereby our partners, or their

clients, utilize us as the services firm of choice to help a partner's client integrate their technology.

*Use Offshore Services When Appropriate.* Our solutions and services are typically delivered at the customer site and require a significant degree of customer participation, interaction and specialized technology expertise which tends to offset the potential savings from utilizing offshore resources. However, there are projects in which we can use lower cost offshore technology professionals to perform less specialized roles on our solution engagements, enabling us to fully leverage our United States colleagues while offering our clients a highly competitive blended average rate. We have established partnerships with a number of offshore staffing firms from whom we source offshore technology professionals on an as-needed basis. Additionally, through our acquisition of ZettaWorks, we maintain a small offshore development and delivery facility in Macedonia.

### **Sales and Marketing**

We have a 21 person direct solutions-oriented sales force that sells from 9 of our 11 offices. Our sales team is experienced and connected through a common services portfolio, sales process and performance management system. Our sales process utilizes project pursuit teams that include those of our information technology professionals best suited to address a particular prospective client's needs. We reward our sales force for developing and maintaining relationships with our clients and seeking out follow-on engagements as well as leveraging those relationships to forge new ones in different areas of the business and with our clients' business partners. More than 80% of our sales are executed by our direct sales force.

Our target client base includes companies in the central United States with annual revenues in excess of \$1 billion. We believe this market segment can generate the repeat business that is a fundamental part of our growth plan. We pursue only solutions opportunities where our domain expertise and delivery track record give us a competitive advantage. We also typically target engagements of up to \$3 million in fees, which we believe to be below the target project range of most large systems integrators and beyond the delivery capabilities of most local boutiques.

We have sales and marketing partnerships with software vendors including IBM Corporation, TIBCO Software, Inc., Microsoft Corporation, Art Technology Group, Inc., or ATG, Wily Technology, Inc., Bowstreet, Adobe Systems Incorporate and Stellent, Inc. These companies are key vendors of open standards based software commonly referred to as middleware application servers, enterprise application integration platforms, business process management, business activity monitoring and business intelligence applications and enterprise portal server software. Our direct sales force works in tandem with the sales and marketing groups of our partners to identify potential new clients and projects. Our partnerships with these companies enable us to reduce our cost of sales and sales cycle times and increase win rates by leveraging our partners' marketing efforts and endorsements. In particular, the IBM software sales channel provides us with significant sales lead flow and joint selling opportunities. Revenue from IBM was approximately 35% and 17% of total revenue for the years ended December 31, 2003 and 2004, respectively.

As we continue to grow our business, we intend to increase our marketing activities to highlight our thought leadership in eBusiness solutions and infrastructure software technology platforms. Our efforts will include technology white papers, by-lined articles by our colleagues in technology and trade publications, media and industry analyst events, sponsorship of and participation in targeted industry conferences and trade shows.

### **Clients**

We have developed and delivered eBusiness integration solutions for more than 380 Global 2000 and midsize companies to date. In the year ended December 31, 2004, we provided services to



approximately 180 customers, excluding customers acquired as a result of the acquisition of ZettaWorks. The following is a list of our top 10 customers by revenue, for the year ended December 31, 2004:

Anheuser-Busch, Inc.;

Assurant/ Fortis, Inc.;

IBM Corporation;

KV Pharmaceutical Company;

Paragon Life Insurance Company, a MetLife Company;

Penguin Group;

ShopNBC;

Union Bank of California;

Wachovia Corporation; and

Zions Bancorporation.

### **Competition**

The market for the information technology consulting services we provide is competitive and has low barriers to entry. We believe that our competitors fall into several categories, including:

small local consulting firms that operate in no more than one or two geographic regions;

regional consulting firms such as Software Architects, Inc., Haverstick Consulting, Inc. and Quilogy, Inc.;

national consulting firms, such as Answerthink, Inc., Accenture, BearingPoint, Inc., Ciber, Inc., Electronic Data Systems Corporation and Sapien Corporation;

in-house professional services organizations of software companies; and

to a limited extent, offshore providers such as Cognizant Technology Solutions Corporation, Infosys Technologies Limited, Satyam Computer Services Limited and Wipro Limited.

We believe that the principal competitive factors affecting our market include domain expertise, track record and customer references, quality of proposed solutions, service quality and performance, reliability, scalability and features of the software platforms upon which the solutions are based, and the ability to implement solutions quickly and respond on a timely basis to customer needs. In addition, because of the relatively low barriers to entry into this market, we expect to face additional competition from new entrants. We expect competition from offshore outsourcing and development companies to increase in the future.

Some of our competitors have longer operating histories, larger client bases and greater name recognition and possess significantly greater financial, technical and marketing resources than we do. As a result, these competitors may be better able to attract customers to which we market our services and adapt more quickly to new technologies or evolving customer or industry requirements.

### **Colleagues**

As of December 31, 2004, we had 424 colleagues, 369 of which were billable professionals, including 80 subcontractors and 55 of which were involved in sales, general administration and marketing.



*Recruiting.* We are dedicated to hiring, developing and retaining experienced, motivated technology professionals who combine a depth of understanding of current Internet and legacy technologies with the ability to implement complex and cutting-edge solutions.

Our recruiting efforts are an important element of our continuing operations and future growth. We generally target technology professionals with extensive experience and demonstrated expertise. To attract technology professionals, we use a broad range of sources including on-staff recruiters, outside recruiting firms, internal referrals, other technology companies and technical associations, the Internet and advertising in technical periodicals. After initially identifying qualified candidates, we conduct an extensive screening and interview process.

*Retention.* We believe that our rapid growth, focus on a core set of eBusiness solutions, applications and software platforms and our commitment to career development through continued training and advancement opportunities make us an attractive career choice for experienced professionals. Because our strategic partners are established and emerging market leaders, our technology professionals have an opportunity to work with cutting-edge information technology. We foster professional development by training our technology professionals in the skills critical to successful consulting engagements such as implementation methodology and project management. We believe in promoting from within whenever possible. In addition to an annual review process that identifies near-term and longer-term career goals, we make a professional development plan available to assist our professionals with assessing their skills and developing a detailed action plan for guiding their career development. Over the past two years, our voluntary attrition rate has been approximately 15%, which we believe is well below the industry average.

*Training.* To ensure continued development of our technical staff, we place a high priority on training. We offer extensive training for our professionals around industry-leading technologies, including an on-line, Internet-based education and training program that offers more than 200 topics, including CORBA, EJB architecture, HTML, J2EE, Linux, Network Security and XML fundamentals. This web-based education system is offered to all of our technology professionals to facilitate their ongoing professional development and increase their technical expertise. We also utilize our education practice and IBM-certified advanced training facility in Chicago, Illinois to provide continuing education and professional development opportunities for our colleagues.

*Compensation.* Our colleagues have a compensation model that includes a base salary and an incentive compensation component. Our tiered incentive compensation plans help us reach our overall goals by rewarding individuals for their influence on key performance factors. Key performance metrics include client satisfaction, revenue generated, utilization, profit and personal skills growth. Our colleagues are not represented by any collective bargaining unit, and we have never experienced a work stoppage.

*Leadership Councils.* Our technology leadership council performs a critical role in maintaining our technology leadership. Consisting of key employees from each of our practice areas, the council frames our new strategic partner strategies and conducts regular Internet webcasts with our technology professionals on specific partner and general technology issues and trends. The council also coordinates thought leadership activities, including white paper authorship and publication and speaking engagements by our professionals. Finally, the council identifies services opportunities between and among our strategic partners' products, oversees our quality assurance programs and assists in acquisition-related technology due diligence.

## **Culture**

*Culture Committee.* We continue to build our corporate culture around a common set of values based on expertise, honesty and teamwork. Our Culture Committee consists of a member from each of our offices and focuses on defining and supporting activities and events that bind our colleagues together and promote an *esprit de corps*. We believe in a strong corporate culture and make a substantial

investment in supporting activities and events through an annual budget that our Culture Committee may allocate in its sole discretion. Some activities have included a rewards and recognition program, work-life balance programs and internal social events among our colleagues.

*The Perficient Promise.* We have codified our commitments to each other in what we call the Perficient Promise, which consists of the following six simple commitments our colleagues make to each other:

we believe in long-term client and partner relationships built on investment in innovative solutions, delivering more value than the competition and a commitment to excellence;

we believe in growth and profitability and building meaningful scale;

we believe each of us is ultimately responsible for our own career development and has a commitment to mentor others;

we believe that Perficient has an obligation to invest in our consultants' training and education;

we believe the best career development comes on the job; and

we love challenging new work opportunities.

We take these commitments extremely seriously because we believe that we can succeed only if the Perficient Promise is kept.

#### **Knowledge Management**

*MyPerficient.com The Corporate Portal.* To ensure easy access to a wide range of information and tools, we have created a corporate portal, MyPerficient.com. It is a secure, centralized communications tool implemented using IBM's WebSphere Portal Server product. It allows each of our colleagues unlimited access to information, productivity tools, time and expense entry, benefits administration, corporate policies and forms and quality management information directories and documentation.

*Professional Services Automation Technology.* We recently completed the implementation of Primavera's Professional Services application as the enabling technology for many of our business processes, including, and perhaps most importantly, knowledge management. We possess and continue to aggregate significant knowledge including marketing collateral, solution proposals, work product and client deliverables. Primavera's technology allows us to store this knowledge in a logical manner and provides full-text search capability allowing our colleagues to deliver solutions more efficiently and competitively.

#### **Properties**

We lease office space in St. Louis, Missouri (10,517 square feet), Minneapolis, Minnesota (18,889 square feet), Downers Grove, Illinois (4,187 square feet), Chicago, Illinois (5,927 square feet), Franklin, Ohio (6,684 square feet), Denver, Colorado (5,241 square feet), Carmel, Indiana (5,194 square feet), Columbus, Ohio (7,550 square feet), Detroit, Michigan (5,500 square feet), Houston, Texas (8,135 square feet), and London, Ontario (2,447 square feet). Our corporate headquarters are located in Austin, Texas (2,701 square feet).

#### **Legal Proceedings**

Although we are a party to litigation and claims arising in the course of our business, management does not expect the results of these actions to have a material adverse effect on our business or financial condition.

**General Information**

We were incorporated in Texas in September 1997 and reincorporated in Delaware in May 1999. Our principal executive offices are located at 1120 South Capital of Texas Highway, Building 3, Suite 220, Austin, Texas 78746 and our telephone number is (512) 531-6000. Our stock is traded on the Nasdaq National Market under the symbol PRFT. Our website can be visited at [www.perficient.com](http://www.perficient.com).

**MANAGEMENT**

Our directors and executive officers, including their ages as of March 31, 2005, are as follows:

| <b>Name</b>              | <b>Age</b> | <b>Position</b>                                   |
|--------------------------|------------|---|
| John T. McDonald         | 41         | Chairman of the Board and Chief Executive Officer |
| Jeffrey S. Davis         | 40         | President and Chief Operating Officer             |
| Michael D. Hill          | 36         | Chief Financial Officer                           |
| Ralph C. Derrickson      | 46         | Director  |
| Max D. Hopper            | 70         | Director  |
| Kenneth R. Johnsen       | 51         | Director  |
| David S. Lundeen         | 43         | Director  |
| Robert E. Pickering, Jr. | 53         | Director  |

*John T. McDonald* joined us in April 1999 as Chief Executive Officer and was elected Chairman of the Board in March 2001. From April 1996 to October 1998, Mr. McDonald was president of VideoSite, Inc., a multimedia software company that was acquired by GTECH Corporation in October 1997, 18 months after Mr. McDonald became VideoSite's president. From May 1995 to April 1996, Mr. McDonald was a Principal with Zilkha & Co., a New York-based merchant banking firm. From June 1993 to April 1996, Mr. McDonald served in various positions at Blockbuster Entertainment Group, including Director of Corporate Development and Vice President, Strategic Planning and Corporate Development of NewLeaf Entertainment Corporation, a joint venture between Blockbuster and IBM. From 1987 to 1993, Mr. McDonald was an attorney with Skadden, Arps, Slate, Meagher & Flom in New York, focusing on mergers and acquisitions and corporate finance. Mr. McDonald currently serves as a member of the board of directors of Interstate Connections, Inc. Mr. McDonald received a B.A. in Economics from Fordham University and a J.D. from Fordham Law School.

*Jeffrey S. Davis* became our Chief Operating Officer upon the closing of the acquisition of Vertecon in April 2002 and was named our President in 2004. He previously served the same role since October 1999 at Vertecon prior to its acquisition by Perficient. Mr. Davis has 13 years of experience in technology management and consulting. Prior to Vertecon, Mr. Davis was a Senior Manager and member of the leadership team in Arthur Andersen's Business Consulting Practice starting in January 1999 where he was responsible for defining and managing internal processes, while managing business development and delivery of products, services and solutions to a number of large accounts. Prior to Arthur Andersen, Mr. Davis worked at Ernst & Young LLP for two years, Mallinckrodt, Inc. for two years, and spent five years at McDonnell Douglas in many different technical and managerial positions. Mr. Davis has a M.B.A. from Washington University and a B.S. degree in Electrical Engineering from the University of Missouri.

*Michael D. Hill* joined us in February 2004 as Chief Financial Officer. From June 2002 through February 2004, Mr. Hill served as Director of Finance and Controller of PerformanceRetail, Inc., a software company. From February 1999 to June 2002, Mr. Hill served as a finance executive with several technology companies including CreditMinders, Inc., Kinetrix Solutions, Inc. and Agillion, Inc. Prior to February 1999, Mr. Hill was an Assurance and Advisory Business Services manager with Ernst & Young LLP's Assurance and Advisory Business Services practice in Austin. Mr. Hill held various other positions at Ernst & Young LLP since December 1991. Mr. Hill received a B.B.A. in Accounting from The University of Texas at Austin and is a licensed certified public accountant in the State of Texas.

*Ralph C. Derrickson* became a member of our board of directors in July 2004. In 2001, he founded the RCollins Group, LLC, a management company that specializes in early stage technology companies, and is currently its Managing Director. Mr. Derrickson was managing director of venture

investments at Vulcan Inc., an investment management firm with headquarters in Seattle, Washington from October 2001 to July 2004. Mr. Derrickson has more than 20 years of technology management experience in a wide range of settings including start-up, interim management and restructuring situations. He served as a board member of Metricom, Inc., a publicly traded company, from April 1997 to November 2001 and as Interim CEO of Metricom from February 2001 to August 2001. Metricom, Inc. voluntarily filed a bankruptcy petition in US Bankruptcy Court for the Northern District of California in July of 2001. Mr. Derrickson was also a founding partner of Watershed Capital, a private equity investment management company established August in 1998. Prior to Watershed, Mr. Derrickson managed venture investments at Vulcan Ventures. He served as vice president of product development at Starwave Corporation, one of the pioneers of the Internet. Earlier, Mr. Derrickson held senior management positions at NeXT Computer, Inc. and Sun Microsystems, Inc. He has served on the boards of numerous start-up technology companies. Mr. Derrickson is active in the business and entrepreneurship programs at the University of Washington and is a member of the advisory board of the Center for Technology Entrepreneurship. He also serves on the board of the Northwest Entrepreneur Network, or NWEN. Mr. Derrickson holds a BT in systems software from the Rochester Institute of Technology.

*Max D. Hopper* became a member of our board of directors in September 2002. Mr. Hopper began his information systems career in 1960 at Shell Oil and served with EDS, United Airlines and Bank of America prior to joining American Airlines. During Mr. Hopper's twenty-year tenure at American Airlines he served as CIO, and as CEO of several business units. Most recently, he founded Max D. Hopper Associates, Inc., a consulting firm that specializes in the strategic use of information technology and eBusiness. Mr. Hopper currently serves on the board of directors for several companies such as Gartner Group, United Stationers and Airgate PCS.

*Kenneth R. Johnsen* became a member of our board of directors in July 2004. He is the President and Chief Executive Officer of Parago Inc., a marketing services transaction processor. Before joining Parago Inc. in 1999, he served as President, Chief Operating Officer and Board Member of Metamor Worldwide Inc., an \$850 million public technology services company specializing in information technology consulting and implementation. Metamor was later acquired by PSINet for \$1.7 billion. At Metamor, Mr. Johnsen grew the IT Solutions Group revenue from \$20 million to over \$300 million within two years. His experience also includes 22 years at IBM where he held general management positions, including Vice President of Business Services for IBM Global Services and General Manager of IBM China/Hong Kong Operations. He achieved record revenue, profit and customer satisfaction levels in both business units.

*David S. Lundeen* became a member of our board of directors in April 1998. From March 1999 through 2002, Mr. Lundeen was a partner with Watershed Capital, a private equity firm based in Mountain View, California. From June 1997 to February 1999, Mr. Lundeen was self-employed, managed his personal investments and acted as a consultant and advisor to various businesses. From June 1995 to June 1997, he served as the Chief Financial Officer and Chief Operating Officer of BSG. From January 1990 until June 1995, Mr. Lundeen served as President of Blockbuster Technology and as Vice President of Finance of Blockbuster Entertainment Corporation. Prior to that time, Mr. Lundeen was an investment banker with Drexel Burnham Lambert in New York City. Mr. Lundeen currently serves as a member of the board of directors of Parago, Inc., and as Chairman of the Board of Interstate Connections, Inc. Mr. Lundeen received a B.S. in Engineering from the University of Michigan in 1984 and an M.B.A. from the University of Chicago in 1988. The board of directors has determined that Mr. Lundeen is an audit committee financial expert, as such term is defined in the rules and regulations promulgated by the Securities and Exchange Commission.

*Robert E. Pickering, Jr.* became a member of our board of directors in August 2002. He has held the position of CEO of IconMedialab International, an information technology services company with headquarters in The Netherlands beginning in 2002. Mr. Pickering began his information technology services career in 1974 at Andersen Consulting, now Accenture, where he was a partner. After 11 years

at Andersen, where he managed and directed several system development and outsourcing projects, Mr. Pickering joined First City Bankcorp in 1996, as Chief Information Officer. Three years later in 1999, he became Chief Information Officer of Continental Airlines. Mr. Pickering was also Chairman and CEO of Origin from 1998 to 2000, one of the largest information technology services companies in Europe. Mr. Pickering was Chairman and CEO of e2i Inc. from May 2000 to December 2001, which filed for protection under the federal bankruptcy laws in December 2001. Mr. Pickering also serves on the boards of a variety of organizations including the American Chamber of Commerce in The Netherlands, B&J Foodservice in Kansas City, and Ora Oxygen, a travel spa based in The Netherlands. Mr. Pickering is a graduate of Baylor University.

All directors hold office until the next annual meeting of our stockholders and until their respective successors have been duly elected and qualified or until their earlier death, resignation or removal. There are no family relationships between any of our directors and executive officers.

#### **Independent Directors**

Our board of directors is comprised of six directors. The board of directors has affirmatively determined that a majority of the directors qualify as independent directors as defined by Securities and Exchange Commission regulations and Nasdaq National Market listing standards. The independent directors are Ralph C. Derrickson, Max D. Hopper, Kenneth R. Johnsen, David S. Lundeen and Robert E. Pickering, Jr.

#### **Committees of the Board of Directors**

The board of directors has created a compensation committee, an audit committee and a nominating committee. Each committee member is independent as defined by Securities and Exchange Commission regulations and Nasdaq National Market listing standards.

The compensation committee establishes salaries, incentives and other forms of compensation for our directors, executive officers and key employees and administers our equity incentive plans and other incentive and benefits plans. The members of the compensation committee are Max D. Hopper, Kenneth R. Johnsen and David S. Lundeen. Mr. Lundeen serves as chairman of the compensation committee.

The audit committee has the sole authority to appoint, retain and terminate our independent accountants and is directly responsible for the compensation, oversight and evaluation of the work of the independent accountants. The independent accountants report directly to the audit committee. The audit committee also has the sole authority to approve all audit engagement fees and terms and all non-audit engagements with our independent accountants and must pre-approve all auditing and permitted non-audit services to be performed for us by the independent accountants, subject to certain exceptions provided by the Securities Exchange Act of 1934. The members of the audit committee are, Max D. Hopper, David S. Lundeen and Robert E. Pickering, Jr. Mr. Lundeen serves as chairman of the audit committee. The board of directors has determined that Mr. Lundeen is qualified as our audit committee financial expert within the meaning of Securities and Exchange Commission regulations and that he has accounting and related financial management expertise within the meaning of the listing standards of the Nasdaq National Market.

The nominating committee was formed in April 2004 and is responsible for advising the board of directors on appropriate composition of the board and its committees, evaluating potential director nominees and nominating directors for election, approving the compensation for non-employee directors, advising the board of directors on corporate governance practices and overseeing new director orientation and the annual review of the performance of the board of directors. The members of the nominating committee are David S. Lundeen and Robert E. Pickering, Jr. Mr. Pickering serves as chairman of the nominating committee.



The nominating committee is responsible for evaluating potential or suggested director nominees and identifying individuals qualified to become members of the board of directors. This committee will also evaluate persons suggested by stockholders and conduct the appropriate inquiries into the backgrounds and qualifications of all possible nominees. The nominating committee will establish criteria for selecting new director nominees and will determine each proposed nominee's qualifications for service on the board of directors. Each nominee should be a person of integrity and be committed to devoting the time and attention necessary to fulfill his or her duties to Perficient.

Our bylaws include a procedure whereby our stockholders can nominate director candidates. Our board of directors will consider director candidates recommended by stockholders in a similar manner to those recommended by members of management and other directors, provided the stockholder submitting such nomination has complied with the notice procedures set forth in our bylaws.

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

On June 26, 2002, Perficient entered into a Convertible Preferred Stock Purchase Agreement with 2M Technology Ventures, L.P., or 2M, pursuant to which 2M purchased 1,111,000 shares of Series B Preferred Stock for a purchase price of \$0.900090009 per share. Pursuant to the Certificate of Designation, Rights and Preferences of the Series B Preferred Stock, on November 10, 2003, all then outstanding shares of Series B Preferred Stock automatically converted into shares of common stock. In connection with its purchase of Series B Preferred Stock, 2M also received a warrant to purchase up to 555,500 shares of common stock. 2M exercised this warrant on February 3, 2004 and March 29, 2004. We received proceeds of \$1,100,000 as a result of the exercise of this warrant. We have registered 2,166,500 shares of our common stock, pursuant to a Registration Statement on Form S-3 (File No. 333-100490), for resale by 2M of the shares issued upon conversion of the shares of Series B Preferred Stock purchased from us, shares issued upon exercise of the warrant, and shares acquired upon purchase from certain of our stockholders in a private transaction

In the acquisition of ZettaWorks, we paid \$10.7 million, consisting of approximately \$2.9 million in cash and 1.2 million shares of our common stock. We also granted certain registration rights in connection with the issuance of these shares and are registering 482,600 shares in this offering, and up to an additional 67,500 shares in the event the over-allotment option is exercised, in partial satisfaction of those registration rights.

In the acquisition of Meritage, we paid approximately \$7.1 million to the Meritage stockholders consisting of approximately \$2.9 million in cash and 1.2 million shares of our common stock. In connection with the acquisition of Meritage, on June 16, 2004 we raised approximately \$2.5 million through a private placement of 800,000 shares of our common stock to a group of institutional investors led by Tate Capital Partners. The investors were also issued warrants for the purchase of an additional 160,000 shares of our common stock. In our acquisition of Meritage, we granted certain registration rights to the stockholders of Meritage, and in our private placement we granted certain registration rights to the investors in the private placement. As a result, we have registered 1.9 million shares of our common stock, pursuant to a Registration Statement on Form S-3 (File No. 333-117216) for resale by the former stockholders of Meritage and by the investors in the private placement.

In the acquisition of Genisys, we paid approximately \$7.9 million to the Genisys stockholders consisting of approximately \$1.5 million in cash and 1.7 million shares of our common stock. In our acquisition of Genisys, we granted certain registration rights to the stockholders of Genisys. As a result, we have registered 253,116 shares of our common stock, pursuant to a Registration Statement on Form S-3 (File No. 333-116549), for resale by the former stockholders of Genisys.

On December 15, 2004, we granted restricted stock awards under our 1999 Stock Option/Stock Issuance Plan to John T. McDonald, our Chief Executive Officer, and Jeffrey S. Davis, our President and Chief Operating Officer, of 175,000 and 87,500 shares of our common stock, respectively. These restricted stock awards vest over seven years with 50% of the vesting in the last two years, subject to partial acceleration if certain revenue growth and operating profitability targets are met.

**PRINCIPAL AND SELLING STOCKHOLDERS**

The following table sets forth information as of March 31, 2005 regarding the beneficial ownership of our common stock before and after this offering of:

each of our directors;

each of our executive officers;

our executive officers and directors as a group;

each person or group known to us to beneficially own five percent or more of the outstanding shares of our common stock; and

each stockholder selling shares in this offering.

The percentage of shares beneficially owned prior to this offering in the following table is based on 21,300,172 shares of common stock outstanding as of March 31, 2005.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission. These rules deem common stock subject to options currently exercisable, or exercisable within 60 days, to be outstanding for purposes of computing the percentage ownership of the person holding the options or of a group of which the person is a member, but they do not deem such stock to be outstanding for purposes of computing the percentage ownership of any other person or group. To our knowledge, except under applicable community property laws, or as otherwise indicated, each person named in the table has sole voting and sole investment control with regard to all shares beneficially owned by such person.

Except as noted below, the address of each person listed on the table is c/o Perficient, Inc., 1120 South Capital of Texas Highway, Building 3, Suite 220, Austin, Texas 78746.

| Name of Beneficial Owner                                    | Shares Beneficially Owned Prior to Offering |         | Number of Shares Being Offered | Shares Beneficially Owned After Offering(1) |            |
|---|---|---------|--------------------------------|---|------------|
|   | Number                                      | Percent |                                | Number                                      | Percent(2) |
| John T. McDonald(3)   | 2,283,692                                   | 10.2%   | 250,000(4)                     | 2,033,692                                   | 7.6%       |
| Jeffrey S. Davis(5)   | 437,261                                     | 2.0%    | 45,000(4)                      | 392,261                                     | 1.5%       |
| Michael D. Hill(6)  | 15,625                                      | *       |                                | 15,625                                      | *          |
| David S. Lundeen(7)   | 451,583                                     | 2.1%    | 125,000(4)                     | 326,583                                     | 1.3%       |
| Robert E. Pickering, Jr.(8)                                 | 65,500                                      | *       |                                | 65,500                                      | *          |
| Max D. Hopper(9)  | 20,000                                      | *       |                                | 20,000                                      | *          |
| Kenneth R. Johnsen(10)                                      | 10,000                                      | *       |                                | 10,000                                      | *          |
| Ralph C. Derrickson(11)                                     | 5,000                                       | *       |                                | 5,000                                       | *          |
| Beekman Ventures, Inc.                                      | 267,342                                     | 1.3%    |                                | 267,342                                     | 1.0%       |
| AB Holdings L.L.C.(12)                                      | 1,042,757                                   | 4.9%    | 517,500(13)                    | 525,257                                     | 2.0%       |
| Morton Meyerson(14)   | 2,358,013                                   | 11.1%   |                                | 2,358,013                                   | 9.2%       |
| 2M Technology Ventures, L.P.(15)                            | 2,166,500                                   | 10.2%   |                                | 2,166,500                                   | 8.4%       |
| The Morton Meyerson Family Foundation(16)                   | 400,000                                     | 1.9%    | 300,000                        | 100,000                                     | *          |
| Kenneth Neusanger   | 55,863                                      | *       | 20,000                         | 35,863                                      | *          |
| Thomas Pash(17)   | 55,863                                      | *       | 8,500                          | 47,363                                      | *          |
| Keith Brenton(18)   | 6,664                                       | *       | 1,300                          | 5,364                                       | *          |
| Douglas Kelly   | 5,060                                       | *       | 1,800                          | 3,260                                       | *          |
| John Biedermann   | 3,771                                       | *       | 1,000                          | 2,771                                       | *          |
| All executive officers and directors as a group (8 persons) | 3,288,661                                   | 14.4%   | 420,000(4)                     | 2,868,661                                   | 10.6%      |
| TOTAL   | 7,216,652                                   | 31.6%   | 1,270,100(4)                   | 5,946,552                                   | 21.9%      |

\* Represents less than 1% of the outstanding shares.

- (1) Assumes the exercise by the underwriters of their over-allotment option in full and also assumes the selling stockholders dispose of all the shares of common stock covered by this prospectus and do not acquire any additional shares.
- (2) The percentage of common stock owned after the offering is based on total shares outstanding of 21,300,172 as of March 31, 2005, and assumes the exercise of the over-allotment option.
- (3) Includes 1,008,085 shares of common stock issuable upon the exercise of options, 50,500 shares of common stock issuable upon exercise of a warrant and 267,342 shares held by Beekman Ventures, Inc. of which Mr. McDonald is the sole stockholder.
- (4) The shares being offered by Mr. McDonald, Mr. Davis and Mr. Lundeen will only be sold if the underwriters exercise their over-allotment option.
- (5) Includes 307,526 shares of common stock issuable upon the exercise of options. Mr. Davis's address is 622 Emerson Road, Suite 400, Creve Coeur, Missouri 63141.
- (6) Includes 15,625 shares of common stock issuable upon the exercise of options.
- (7) Includes 75,833 shares of common stock issuable upon the exercise of options.

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- (8) Includes 15,000 shares of common stock issuable upon the exercise of options.
- (9) Includes 20,000 shares of common stock issuable upon the exercise of options.
- (10) Includes 10,000 shares of common stock issuable upon the exercise of options.
- (11) Includes 5,000 shares of common stock issuable upon the exercise of options.

- (12) Includes (i) 622,236 shares held by AB Holdings L.L.C. and (ii) 420,521 shares beneficially held by the trusts described in this footnote. Robert G. Ackerley and Leland C. Ackerley are the managers of AB Holdings L.L.C. and have shared voting and dispositive power with respect to the shares of common stock held by AB Holdings L.L.C. Robert G. Ackerley and Leland C. Ackerley disclaim beneficial ownership of such shares. AB Holdings L.L.C.'s address is 2215 B. Renaissance Drive, Suite 5, Las Vegas, Nevada 89119. Pursuant to powers of attorney, AB Holdings L.L.C. has been granted the authority to dispose of the shares held by the following described trusts in accordance with the instructions of the respective trustees who retain investment discretion and voting power over such shares. AB Holdings L.L.C., Robert G. Ackerley and Leland C. Ackerley each disclaim beneficial ownership of such shares. The beneficial ownership of the shares held by each of the trusts is as follows:
- a. 70,087 shares of common stock are beneficially owned by the Eve E. Ackerley 1999 Trust. Bernard Smith, in his capacity as trustee of the Eve E. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 70,087 shares of common stock beneficially owned by the Eve E. Ackerley 1999 Trust. Bernard Smith disclaims any such beneficial ownership of the shares.
  - b. 70,087 shares of common stock are beneficially owned by the Sydney E. Ackerley 1999 Trust. Bernard Smith, in his capacity as trustee of the Sydney E. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 70,087 shares of common stock beneficially owned by the Sydney E. Ackerley 1999 Trust. Bernard Smith disclaims any such beneficial ownership of the shares.
  - c. 52,565 shares of common stock are beneficially owned by the Andrew L. Ackerley 1999 Trust. Margaret Ackerley, in her capacity as trustee of the Andrew L. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 52,565 shares of common stock beneficially owned by the Andrew L. Ackerley 1999 Trust. Margaret Ackerley disclaims any such beneficial ownership of the shares.
  - d. 52,565 shares of common stock are beneficially owned by the Leland T. Ackerley 1999 Trust. Margaret Ackerley, in her capacity as trustee of the Leland T. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 52,565 shares of common stock beneficially owned by the Leland T. Ackerley 1999 Trust. Margaret Ackerley disclaims any such beneficial ownership of the shares.
  - e. 52,565 shares of common stock are beneficially owned by the William B. Ackerley 1999 Trust. Margaret Ackerley, in her capacity as trustee of the William B. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 52,565 shares of common stock beneficially owned by the William B. Ackerley 1999 Trust. Margaret Ackerley disclaims any such beneficial ownership of the shares.
  - f. 52,565 shares of common stock are beneficially owned by the Alexis A. Ackerley 1999 Trust. Margaret Ackerley, in her capacity as trustee of the Alexis A. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 52,565 shares of common stock beneficially owned by the Alexis A. Ackerley 1999 Trust. Margaret Ackerley disclaims any such beneficial ownership of the shares.
  - g. 70,087 shares of common stock are beneficially owned by the Benjamin L. Ackerley 1999 Trust. Bernard Smith, in his capacity as trustee of the Benjamin L. Ackerley 1999 Trust may be deemed to have investment discretion and voting power over the 70,087 shares of common stock beneficially owned by the Benjamin L. 1999 Trust. Bernard Smith disclaims any such beneficial ownership of the shares.
- (13) 67,500 of such shares will only be sold if the underwriters exercise their over-allotment option.
- (14) Includes 2,166,500 shares beneficially owned by 2M Technology Ventures, L.P. Morton H. Meyerson's address is 3401 Armstrong Avenue, Dallas, Texas 75205.
- (15) 2M Technology Ventures, L.P.'s address is 3401 Armstrong Avenue, Dallas, Texas 75205.
- (16) Morton H. Meyerson acts as investment advisor to this selling stockholder and may be deemed to beneficially own shares owned by or for the account of this selling stockholder. The board of

the foundation has investment authority over the shares of common stock held by this selling stockholder. The board consists of Morton H. Meyerson, A. Reid Heller, Scott Letier, David Agronin, Roberta Herman, Gary Weinstein and Herbert S. Rosenthal. The Foundation's address is 7800 Northaven Road, Dallas, Texas 75230.

- (17) Mr. Pash is general manager of our wholly owned subsidiary, Perficient ZettaWorks, Inc.
- (18) Mr. Brenton is a business development director for us.

### DESCRIPTION OF CAPITAL STOCK

We are authorized to issue 40,000,000 shares of common stock, par value \$0.001 per share, and 8,000,000 shares of preferred stock, par value \$0.001 per share. As of March 31, 2005, we had outstanding 21,300,172 shares of common stock owned by approximately 110 holders of record.

#### Common Stock

The holders of our common stock are entitled to one vote for each share held of record in the election of directors and in all other matters to be voted on by the stockholders. There is no cumulative voting with respect to the election of directors. As a result, the holders of more than 50 percent of the shares voting for the election of directors can elect all of the directors. Holders of common stock are entitled:

to receive any dividends as may be declared by the board of directors out of funds legally available for such purpose; and

in the event of our liquidation, dissolution, or winding up, to share ratably in all assets remaining after payment of liabilities and after provision has been made for each class of stock, if any, having preference over the common stock.

All of the outstanding shares of common stock are, and the shares of common stock offered through this prospectus will be, upon issuance and sale, validly issued, fully paid and nonassessable. Holders of our common stock have no preemptive right to subscribe for or purchase additional shares of any class of our capital stock.

#### Preferred Stock

The board of directors has the authority, within the limitations stated in our certificate of incorporation, to provide by resolution for the issuance of shares of preferred stock, in one or more classes or series, and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences and the number of shares constituting any series or the designation of such series. The issuance of preferred stock could have the effect of decreasing the market price of our common stock and could adversely affect the voting and other rights of the holders of our common stock.

#### Delaware Anti-Takeover Law and Our Certificate of Incorporation and Bylaws

*Delaware Business Combination Statute.* We are subject to Section 203 of the Delaware General Corporation Law. Such section provides that, subject to exceptions set forth therein, an interested stockholder of a Delaware corporation shall not engage in any business combination, including mergers or consolidations or acquisitions of additional shares of the corporation, with the corporation for a three-year period following the date that such stockholder becomes an interested stockholder unless:

prior to such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, other than statutorily excluded shares; or

on or subsequent to such date, the business combination is approved by the board of directors of the corporation and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66% of the outstanding voting stock which is not owned by the interested stockholder.



Except as otherwise set forth in Section 203, an interested stockholder is defined to include:

any person that is the owner of 15% or more of the outstanding voting stock of the corporation, or is an affiliate or associate of the corporation and was the owner of 15% or more of the outstanding voting stock of the corporation at any time within three years immediately prior to the date of determination; and

the affiliates and associates of any such person.

Section 203 may make it more difficult for a person who would be an interested stockholder to effect various business combinations with a corporation for a three-year period. The provisions of Section 203 may encourage persons interested in acquiring us to negotiate in advance with our board of directors since the stockholder approval requirement would be avoided if a majority of the directors then in office approves either the business combination or the transaction which results in any such person becoming an interested stockholder. Such provisions also may have the effect of preventing changes in our management. It is possible that such provisions could make it more difficult to accomplish transactions which our stockholders may otherwise deem to be in their best interests.

*Limitation on Call of Special Meetings of Stockholders.* Under the Delaware General Corporation Law, special meetings of stockholders may be called by our board of directors or by such other persons as may be authorized by our certificate of incorporation or bylaws. Our certificate of incorporation and bylaws provide that special meetings may be called by the Chairman of the board of directors, the President or by the board of directors pursuant to a resolution adopted by a majority of the members of our board of directors. Except as otherwise required by law or our certificate of incorporation, no business may be transacted at any special meeting of stockholders other than the items of business stated in the notice of such meeting.

*Advance Notice Requirements.* Our bylaws establish advance notice procedures with regard to (a) the nomination, other than by or at the direction of our board of directors, of candidates for election to our board of directors and (b) certain business to be brought by a stockholder before an annual meeting of stockholders.

The provision regarding nomination, by requiring advance notice of nominations by stockholders, affords our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders about such qualifications.

The other provision, by requiring advance notice of business proposed by a stockholder to be brought before an annual meeting, provides a more orderly procedure for conducting annual meetings of stockholders and provides our board of directors with a meaningful opportunity prior to the meeting to inform stockholders, to the extent deemed necessary or desirable by our board of directors, of any business proposed to be conducted at such meeting, together with any recommendation of our board of directors. This provision does not affect the right of stockholders to make stockholder proposals for inclusion in proxy statements for our annual meetings of stockholders pursuant to the rules of the Securities and Exchange Commission.

Although these bylaw provisions do not give our board of directors any power to approve or disapprove of stockholder nominations for the election of directors or of any other business desired by stockholders to be conducted at an annual meeting of stockholders if the proper procedures are followed, these bylaw provisions may have the effect of precluding a nomination or precluding the conduct of business at a particular annual meeting, and may make it difficult for a third party to conduct a solicitation of proxies to elect its own slate of directors or otherwise attempt to obtain control of us, even if such a solicitation or attempt might be beneficial to us and our stockholders.

**Stock Transfer Agent and Registrar**

The stock transfer agent and registrar for our common stock is Continental Stock Transfer & Trust Company.

**Stockholder Reports**

We furnish our stockholders with annual reports containing audited financial statements and may furnish our stockholders quarterly or semi-annual reports containing unaudited financial information.

**Listing**

Our common stock is quoted on the Nasdaq National Market under the symbol PRFT.

**UNDERWRITING**

The underwriters named below are acting through their representative, Friedman, Billings, Ramsey & Co., Inc. Subject to the terms and conditions contained in the underwriting agreement, we and the selling stockholders have agreed to sell to the underwriters, and each underwriter has agreed to purchase, the number of shares set forth opposite its name below. The underwriting agreement provides that the obligation of the underwriters to pay for and accept delivery of our common stock is subject to certain conditions. The underwriters are obligated to take and pay for all shares of our common stock offered (other than those covered by the over-allotment option described below) if any of the shares are taken.

| Underwriters                             | Number of<br>Shares |
|--|---------------------|
| Friedman, Billings, Ramsey & Co., Inc.   |                     |
| Stifel, Nicolaus & Company, Incorporated |                     |
| Roth Capital Partners, LLC               |                     |
| Gilford Securities Incorporated          |                     |
| <b>Total</b>                             | <b>5,032,600</b>    |

We and some of our existing stockholders have granted the underwriters an option exercisable for 30 days after the date of this prospectus to purchase up to 754,890 additional shares of common stock to cover over-allotments, if any, at the public offering price less the estimated underwriting discounts and commissions set forth on the cover page of this prospectus.

The following table shows the per share and total estimated underwriting discounts and commissions we and the selling stockholders will pay to the underwriters. The amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 754,890 additional shares of our common stock to cover over-allotments.

|           | Perficient  |               | Selling Stockholders |               |
|-----------|-------------|---------------|----------------------|---------------|
|           | No Exercise | Full Exercise | No Exercise          | Full Exercise |
| Per share | \$          | \$            | \$                   | \$            |
| Total     | \$          | \$            | \$                   | \$            |

The underwriters propose to offer our common stock directly to the public at \$ \_\_\_\_\_ per share and to various dealers at this price less a concession not in excess of \$ \_\_\_\_\_ per share. The underwriters may allow, and the dealers may reallow, a concession not in excess of \$ \_\_\_\_\_ per share to various other dealers.

We expect to incur expenses, excluding underwriting fees, of approximately \$850,000 in connection with this offering, including fees and expenses of counsel to the underwriters which we have agreed to pay. Additionally, we have agreed to reimburse Friedman, Billings, Ramsey & Co., Inc. for its other out-of-pocket expenses, including road show expenses, in connection with this offering.

Our common stock is listed on the Nasdaq National Market under the symbol PRFT.

In connection with this offering the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, penalty bids and passive market making in accordance with Regulation M under the Exchange Act.

Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number

of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by exercising their over-allotment option and/or purchasing shares in the open market.

Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of shares to close out the short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. If the underwriters sell more shares than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in this offering.

Penalty bids permit the representative to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

In passive market making, market makers in the common stock who are underwriters or prospective underwriters may, subject to limitations, make bids for or purchases of our common stock until the time, if any, at which a stabilizing bid is made.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result the price of our common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

We and the selling stockholders have agreed to indemnify the underwriters against various liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make in respect thereof.

Our officers, directors, holders of five percent or more of our common stock, and the selling stockholders have agreed with the underwriters not to, directly or indirectly, offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to any shares of common stock or any securities convertible into or exchangeable for shares of common stock (or to engage in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a disposition of any such securities, even if such securities would be disposed of by someone other than one of our officers, our directors, holders of five percent or more of our common stock, or the selling stockholders), for a period continuing through the 90th day after the date of this prospectus, except with the prior written consent of Friedman, Billings, Ramsey & Co., Inc. These transfer restrictions do not apply to bona fide gifts, provided the donees agree in writing to be bound by the terms of these transfer restrictions, or sales or purchases of common stock acquired in the open market.

In addition, we have agreed, for a period continuing through the 90th day after the date of this prospectus, not to, except with the prior written consent of Friedman, Billings, Ramsey & Co., Inc., directly or indirectly, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option for the sale of, or otherwise dispose of or transfer (or enter into any transaction or device which is designed to, or could be expected to, result in the disposition by any person at any time in the future of) any share of common stock or any securities convertible into or exercisable or exchangeable for common stock, or file any registration statement under the Securities Act with respect to any of the foregoing, or (ii) enter into any swap or other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic

consequences of ownership of the common stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of common stock or such other securities, in cash or otherwise. These restrictions do not apply to the shares to be sold in this offering or any shares issued by us upon the exercise of outstanding options or warrants or pursuant to any of our stock plans or any shares issued by us as consideration for the acquisition of another business or entity.

A prospectus in electronic format will be made available on Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocations for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's web site and any information contained in any other web site maintained by an underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

### **LEGAL MATTERS**

The validity of the securities offered by this prospectus will be passed upon for us by Vinson & Elkins LLP, Austin, Texas. Legal matters will be passed upon for the underwriters by King & Spalding LLP, Houston, Texas.

### **EXPERTS**

The consolidated financial statements of Perficient, Inc. at December 31, 2004 and the year then ended included and incorporated by reference in this prospectus have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the period set forth in their report appearing elsewhere herein and incorporated herein by reference, and are included and incorporated herein in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Perficient, Inc. and its subsidiaries at December 31, 2002 and 2003, and for each of the two years in the period ended December 31, 2003 appearing in this prospectus have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere in this prospectus and are included in reliance upon such report given on their authority as experts in accounting and auditing.

The financial statements of Genisys Consulting, Inc. as of December 31, 2002 and 2003, and for each of the two years in the period ended December 31, 2003, appearing in this prospectus have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere in this prospectus, and are included in reliance upon such report, given on their authority as experts in accounting and auditing.

The financial statements of Meritage Technologies, Inc. as of December 31, 2002 and 2003 included in this prospectus have been audited by Grant Thornton LLP as set forth in their report appearing elsewhere in this prospectus, and are included in reliance upon such report, given on their authority as experts in accounting and auditing.

The financial statements of ZettaWorks LLC as of December 31, 2002 and 2003 included in this prospectus have been audited by BKD LLP as set forth in their report appearing elsewhere in this prospectus, and are included in reliance upon such report, given on their authority as experts in accounting and auditing.

### **WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. We have filed a registration statement to register with the SEC the shares of our common stock listed in the prospectus. This prospectus does not contain all the information contained in the registration statement and the exhibits to the registration statement. For further information with respect to us our common stock, we refer you to the registration statement and to the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract, agreement or other document to which we make reference are not necessarily complete, and in each instance, we refer you to the copy of the contract, agreement or other document filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference. You may read and copy all or any portion of the registration statement or any reports, statements or other information we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. You can receive copies of these documents upon payment of a duplicating fee by writing to the SEC. Our SEC filings, including the registration statement, will also be available to you on the SEC's website at [www.sec.gov](http://www.sec.gov). Our website can be visited at [www.perficient.com](http://www.perficient.com). Information contained on our website is not a part of this prospectus.

**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

Some of the important business and financial information that you may want to consider is not included in this prospectus, but rather is incorporated by reference to documents that have been filed by us with the Securities and Exchange Commission pursuant to the Exchange Act of 1934. The information that is incorporated by reference consists of:

Perficient's Annual Report on Form 10-KSB for the year ended December 31, 2004, as amended by Amendment No. 1;

our Current Report on Form 8-K filed on April 8, 2005; and

The description of our common stock contained in the section entitled "Description of Registrant's Securities to be Registered" contained in our registration statement on Form 8-A filed on July 22, 1999 (File No. 000-15169).

All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, after the date of the initial registration statement and prior to the effectiveness of the registration statement and subsequent to the date of this prospectus and prior to the termination of this offering, shall be deemed incorporated by reference in this prospectus and made a part hereof from the date of filing of those documents. Any statement contained in a document incorporated or deemed incorporated by reference in this prospectus shall be deemed modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed incorporated by reference herein or in any prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person who is delivered a prospectus, on written or oral request, a copy of any or all of the documents incorporated by reference herein (other than exhibits to those documents unless those exhibits are specifically incorporated by reference into those documents). Requests for copies should be directed to Investor Relations, Perficient, Inc., 1120 South Capital of Texas Highway, Building 3, Suite 220, Austin, Texas 78746, Telephone: (512) 531-6000.



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders

Perficient, Inc.

Austin, Texas

We have audited the accompanying consolidated balance sheet of Perficient, Inc. as of December 31, 2004, and the related consolidated statements of operations, changes in stockholders' equity and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Perficient, Inc. at December 31, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*/s/* **BDO Seidman, LLP**

Houston, Texas

February 2, 2005

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
Perficient, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Perficient, Inc. and Subsidiaries as of 2003, and the related consolidated statement of operations, changes in stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Perficient, Inc. and Subsidiaries at December 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Austin, Texas  
January 9, 2004

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**PERFICIENT, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF DECEMBER 31, 2003 AND 2004**

|  | December 31,         |                      |
|--|----------------------|----------------------|
|  | 2003                 | 2004                 |
| <b>ASSETS</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash and cash equivalents  | \$ 1,989,395         | \$ 3,905,460         |
| Accounts receivable, net of allowance for doubtful accounts of \$622,995 in 2003 and \$654,180 in 2004                             | 5,534,607            | 20,049,500           |
| Other current assets   | 297,058              | 336,309              |
| <b>Total current assets</b>  | <b>7,821,060</b>     | <b>24,291,269</b>    |
| Property and equipment:  |                      |                      |
| Hardware   | 1,685,577            | 2,079,521            |
| Furniture and fixtures   | 655,662              | 726,570              |
| Leasehold improvements   | 234,671              | 125,797              |
| Software   | 263,059              | 427,178              |
| Accumulated depreciation and amortization  | (2,139,824)          | (2,553,235)          |
| <b>Property and equipment, net</b>   | <b>699,145</b>       | <b>805,831</b>       |
| Goodwill   | 11,329,000           | 32,818,431           |
| Other intangible assets, net of amortization   | 364,834              | 4,521,460            |
| Other assets   | 45,944               | 145,374              |
| <b>Total assets</b>  | <b>\$ 20,259,983</b> | <b>\$ 62,582,365</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable   | \$ 775,980           | \$ 6,927,523         |
| Current portion of long term debt  |                      | 1,135,354            |
| Other current liabilities  | 2,664,787            | 6,750,968            |
| Current portion of note payable to related party   | 366,920              | 243,847              |
| <b>Total current liabilities</b>   | <b>3,807,687</b>     | <b>15,057,692</b>    |
| Note payable to related party, less current portion  | 436,258              | 226,279              |
| Long-term debt, less current portion   |                      | 2,676,027            |
| <b>Total liabilities</b>   | <b>4,243,945</b>     | <b>17,959,998</b>    |
| Stockholders equity:   |                      |                      |
| Preferred stock, \$0.001 par value; 8,000,000 shares authorized; no shares issued and outstanding as of December 31, 2003 and 2004 |                      |                      |
| Common stock, \$0.001 par value; 40,000,000 shares authorized; 14,033,246 shares issued and outstanding as of                      | 14,033               | 20,914               |

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|  |               |               |
|--|---------------|---------------|
| December 31, 2003 and 20,913,532 shares issued and outstanding as of December 31, 2004 |               |               |
| Additional paid-in capital   | 76,315,780    | 102,637,699   |
| Unearned stock compensation  | (26,623)      | (1,656,375)   |
| Accumulated other comprehensive loss   | (51,830)      | (57,837)      |
| Retained deficit   | (60,235,322)  | (56,322,034)  |
| Total stockholders equity  | 16,016,038    | 44,622,367    |
| Total liabilities and stockholders equity  | \$ 20,259,983 | \$ 62,582,365 |

*The accompanying notes are an integral part of consolidated financial statements.*

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**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004**

|  | Year Ended December 31, |               |
|--|-------------------------|---------------|
|  | 2003                    | 2004          |
| Revenue  |                         |               |
| Services   | \$ 24,534,617           | \$ 43,330,757 |
| Software   | 3,786,864               | 13,169,693    |
| Reimbursable expenses  | 1,870,441               | 2,347,223     |
| Total revenue  | 30,191,922              | 58,847,673    |
| Cost of revenue (exclusive of depreciation shown separately below) |                         |               |
| Project personnel costs  | 13,411,762              | 26,072,516    |
| Software costs   | 3,080,894               | 11,341,145    |
| Reimbursable expenses  | 1,870,441               | 2,347,223     |
| Other project related expenses                                     | 453,412                 | 267,416       |
| Total cost of revenue  | 18,816,509              | 40,028,300    |
| Gross margin   | 11,375,413              | 18,819,373    |
| Selling, general and administrative                                | 7,993,008               | 11,067,792    |
| Depreciation   | 670,436                 | 512,076       |
| Intangibles amortization   | 610,421                 | 696,420       |
| Income from operations   | 2,101,548               | 6,543,085     |
| Interest income  | 3,286                   | 2,564         |
| Interest expense   | (285,938)               | (137,278)     |
| Other income (expense)   | (13,459)                | 32,586        |
| Income before income taxes   | 1,805,437               | 6,440,957     |
| Provision for income taxes   | 755,405                 | 2,527,669     |
| Net income   | \$ 1,050,032            | \$ 3,913,288  |
| Accretion of dividends on preferred stock                          | (157,632)               |               |
| Net income available to common stockholders                        | \$ 892,400              | \$ 3,913,288  |
| Basic net income per share available to common stockholders        | \$ 0.08                 | \$ 0.22       |
| Diluted net income per share available to common stockholders      | \$ 0.07                 | \$ 0.19       |
| Shares used in computing basic net income per share                | 10,818,417              | 17,648,575    |
| Shares used in computing diluted net income per share              | 15,306,151              | 20,680,507    |

*The accompanying notes are an integral part of consolidated financial statements.*

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|  |               |           |            |                |                |             |                 |               |
|--|---------------|-----------|------------|----------------|----------------|-------------|-----------------|---------------|
| ...e of<br>...or<br>...s<br>...tion          | 1,687,439     | 1,687     |            | 6,780,864      |                |             |                 | 6,780,864     |
| ...e of<br>...or<br>...e<br>...tion          | 1,168,219     | 1,168     |            | 4,198,832      |                |             |                 | 4,200,000     |
| ...e of<br>...or<br>...orks<br>...tion       | 1,193,179     | 1,193     |            | 7,790,266      |                |             |                 | 7,790,266     |
| ...e of<br>...or private<br>...ent           | 800,000       | 800       | 388,800    | 1,970,191      |                |             |                 | 2,358,991     |
| ...ect of<br>...alified<br>...ption<br>...es |               |           |            | 341,789        |                |             |                 | 341,789       |
| ...d stock<br>...isation                     | 262,500       | 263       |            | 1,656,112      | (1,656,375)    |             |                 | 1,656,112     |
| ...zation of<br>...d<br>...isation           |               |           |            |                |                | 26,623      |                 | 26,623        |
| ...y<br>...ion<br>...ent<br>...ome           |               |           |            |                |                | (6,007)     |                 | 3,913,288     |
| ...prehensive<br>...e                        |               |           |            |                |                |             |                 | 3,913,288     |
| ...e at<br>...ber 31,                        | \$ 20,913,532 | \$ 20,914 | \$ 450,166 | \$ 102,187,533 | \$ (1,656,375) | \$ (57,837) | \$ (56,322,034) | \$ 44,600,000 |

*The accompanying notes are an integral part of consolidated financial statements.*

**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2004**

|  | Year Ended December 31, |              |
|--|-------------------------|--------------|
|  | 2003                    | 2004         |
| <b>OPERATING ACTIVITIES</b>  |                         |              |
| Net income   | \$ 1,050,032            | \$ 3,913,288 |
| Adjustments to reconcile net income to net cash provided by operations:          |                         |              |
| Depreciation   | 670,436                 | 512,076      |
| Intangibles amortization   | 610,421                 | 696,420      |
| Non-cash stock compensation  | 135,927                 | 26,623       |
| Non-cash interest expense  | 72,383                  |              |
| Loss on disposal of assets   | 30,954                  |              |
| Changes in operating assets and liabilities (net of the effect of acquisitions): |                         |              |
| Accounts receivable  | (1,577,259)             | (8,119,521)  |
| Other assets   | 199,753                 | 76,261       |
| Accounts payable   | (297,185)               | 5,296,844    |
| Other liabilities  | 990,015                 | 1,635,788    |
| Net cash provided by operating activities  | 1,885,477               | 4,037,779    |
| <b>INVESTING ACTIVITIES</b>  |                         |              |
| Purchase of property and equipment   | (191,207)               | (430,169)    |
| Purchase of businesses, net of cash acquired                                     |                         | (10,733,722) |
| Payments on Javelin notes  | (500,000)               |              |
| Proceeds from disposal of assets   | 1,950                   |              |
| Net cash used in investing activities  | (689,257)               | (11,163,891) |
| <b>FINANCING ACTIVITIES</b>  |                         |              |
| Payments on capital lease obligation   | (569,695)               |              |
| Proceeds from borrowings   | 166,282                 | 4,000,000    |
| Payments on borrowings   | (706,293)               | (521,671)    |
| Preferred stock issuance costs   | (8,665)                 |              |
| Payment of dividends   | (45,457)                |              |
| Proceeds from stock issuances, net   | 433,450                 | 5,569,997    |
| Net cash provided by (used in) financing activities                              | (730,378)               | 9,048,326    |
| Effect of exchange rate on cash and cash equivalents                             | (1,449)                 | (6,149)      |
| Change in cash and cash equivalents  | 464,393                 | 1,916,065    |
| Cash and cash equivalents at beginning of period                                 | 1,525,002               | 1,989,395    |
| Cash and cash equivalents at end of period                                       | \$ 1,989,395            | \$ 3,905,460 |

**Supplemental disclosures:**

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|   |    |         |    |            |
|---|----|---------|----|------------|
| Interest paid   | \$ | 207,326 | \$ | 141,456    |
| Cash paid for income taxes  | \$ | 449,768 | \$ | 2,255,987  |
| <b>Non cash activities:</b>   |    |         |    |            |
| Common stock and options issued in purchase of businesses   | \$ |         | \$ | 18,774,010 |
| Reduction of goodwill as a result of utilization of net operating losses from acquisitions which had previously been fully reserved | \$ |         | \$ | 644,064    |
| Deferred stock compensation from issuance of restricted stock   | \$ |         | \$ | 1,656,375  |

*The accompanying notes are an integral part of consolidated financial statements.*

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**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Description of Business and Principles of Consolidation**

Perficient, Inc. (the Company) is an information technology consulting firm. The Company helps its clients use Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. The Company designs, builds and delivers solutions using a core set of middleware software products developed by third party vendors. The Company's solutions enable its clients to operate a real-time enterprise that adapts business processes and the systems that support them to the changing demands of an increasingly global, Internet-driven and competitive marketplace.

The Company was incorporated on September 17, 1997 in Texas. The Company began operations in 1997 and is structured as a C -corporation. On May 3, 1999 the Company reincorporated in Delaware. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries including Perficient Canada, Corp., Perficient Genisys, Inc., Perficient Meritage, Inc., and Perficient Zettaworks, Inc. All material intercompany accounts and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform with current period presentation.

**2. Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and such differences could be material to the financial statements.

*Revenue Recognition*

Revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, revenue is recognized and billed by multiplying the number of hours expended in the performance of the contract by the established billing rates. For fixed fee projects, revenue is generally recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. On many projects the Company is also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenue in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force ( EITF ) 01-14, *Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred*. In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, revenue from sales of third-party software is recorded on a gross basis based on the Company's role as principal in the transaction. As provided in EITF 99-19 criteria, to be considered principal, the Company must be the primary obligator and bear the associated credit risk in the transaction. In the event the Company does not meet the requirements to be considered a principal in the software sale transaction and acts as an agent, the revenue would be recorded on a net basis. Software revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collection is deemed probable.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Cash Equivalents***

Cash equivalents consist primarily of cash deposits and investments with original maturities of ninety days or less when purchased.

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable are recorded at cost. The Company maintains an allowance for doubtful accounts related to its accounts receivables that have been deemed to have a high risk of collectibility. Management reviews its accounts receivables on a monthly basis to determine if any receivables will potentially be uncollectible. Management analyzes historical collection trends and changes in its customer payment patterns, customer concentration, and credit worthiness when evaluating the adequacy of its allowance for doubtful accounts. The Company includes any receivables balances that are determined to be uncollectible, along with a general reserve, in its overall allowance for doubtful accounts. Based on the information available, management believes the allowance for doubtful accounts is adequate; however, actual write-offs might exceed the recorded allowance.

***Property and Equipment***

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the useful lives of the assets (generally two to five years). Leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the assets. Amortization of assets recorded under capital leases is computed using the straight-line method and is included in depreciation expense. All capital leases were fully paid off during 2003.

***Intangible Assets***

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and Other Intangible Assets*, and no longer amortizes its goodwill. In accordance with SFAS No. 142, the Company annually assesses its intangible assets, including goodwill, for indications of impairment. No impairment of goodwill has been identified during any of the periods presented in the accompanying consolidated financial statements.

Other intangible assets, including amounts allocated to customer relationships, customer backlog, and non-compete arrangements, are being amortized over the assets' estimated useful lives using the straight-line method. Estimated useful lives range from nine months to eight years. Amortization of customer relationships, customer backlog, and non-compete arrangements is considered operating expense and included in Amortization of intangible assets in the accompanying consolidated statements of operations. The Company periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in a lack of recoverability or revised useful life.

***Impairment of Long-Lived Assets***

Business acquisitions typically result in goodwill, and the recorded values of goodwill may become impaired in the future. The evaluation of the potential impairment of such goodwill requires us to make estimates and assumptions that affect the Company's consolidated financial statements. Management assesses potential impairments of goodwill on an annual basis or when there is evidence that events or changes in circumstances indicate that the carrying amount may not be recovered. Management's judgments regarding the existence of impairment indicators and fair values related to goodwill are based

**PERFICIENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

on operational performance of the businesses, market conditions and other factors. Future events could cause management to conclude that impairment indicators exist and that goodwill associated with the acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on the Company's results of operations. Management assessed goodwill for impairment at October 1, 2004. This analysis indicated that there was no impairment of the carrying values of goodwill.

The Company evaluates its long-lived tangible assets and intangible assets other than goodwill in accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*, which it adopted as of January 1, 2002. Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be entirely recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. Management has determined that no impairment exists as of December 31, 2004.

***Income Taxes***

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are subject to tests of recoverability. A valuation allowance is provided for such deferred tax assets to the extent realization is not judged to be more likely than not.

***Foreign Currency Transactions***

For the Company's foreign subsidiaries, the functional currency has been determined to be the local currency, and therefore, assets and liabilities are translated at year-end exchange rates, and income statement items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded in aggregate as a component of stockholders' equity. Gains and losses from foreign currency denominated transactions, including a \$15,800 gain in 2003 and a \$3,100 gain in 2004, are included in other income (expense). Due to the on-going winddown of the United Kingdom subsidiary, a foreign currency gain of \$15,500 was transferred from cumulative translation adjustments and included as a component of net income for the year ended December 31, 2003.

***Segments***

The Company follows the provisions of the SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. SFAS No. 131 requires a business enterprise, based upon a management approach, to disclose financial and descriptive information about its operating segments. Operating segments are components of an enterprise about which separate financial information is available and regularly evaluated by the chief operating decision maker(s) of an enterprise. Under this definition, the Company operates as a single segment for all periods presented. The Company's chief operating decision maker is considered to be the Company's Chief Executive Officer and Chairman of the Board. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the consolidated level.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Earnings Per Share***

The Company follows the provisions of SFAS No. 128, *Earnings Per Share*. Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share includes the weighted average number of common shares outstanding and the number of equivalent shares which would be issued related to the stock options and warrants using the treasury method, contingently issuance shares, and convertible preferred stock using the if-converted method, unless such additional equivalent shares are anti-dilutive.

***Stock-Based Compensation***

SFAS No. 123, *Accounting for Stock-Based Compensation*, prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options. As allowed by SFAS No. 123, the Company has elected to account for its employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ), which allows the use of the intrinsic value method. The Company's basis for electing accounting treatment under APB 25 is principally due to the satisfactory incorporation of the dilutive effect of these shares in the reported earnings per share calculation and the presence of pro forma supplemental disclosure of the estimated fair value methodology prescribed by SFAS No. 123 and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. The fair value of options was calculated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions for the year ended December 31, 2003 and 2004, respectively: risk free interest rate of 2.98% and 3.61%; dividend yield of 0%; weighted-average expected life of options of 5 years; and a volatility factor of 1.515 and 1.388.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable. In addition, option valuation models in general require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different than traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a single reliable measure of the fair value of its stock options.

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**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of SFAS No. 123:

|  | <b>Year Ended December 31,</b> |              |
|--|--------------------------------|--------------|
|  | <b>2003</b>                    | <b>2004</b>  |
| Net income available to common stockholders as reported  | \$ 892,400                     | \$ 3,913,288 |
| Total stock-based compensation costs included in the determination of net income available to common stockholders as reported  | 135,927                        | 26,623       |
| The stock-based employee compensation cost that would have been included in the determination of net income available to common stockholders if the fair value based method had been applied to all awards | (1,147,235)                    | (1,015,627)  |
| Pro forma net income (loss)  | \$ (118,908)                   | \$ 2,924,284 |
| Earnings (loss) per share  |                                |              |
| Basic as reported  | \$ 0.08                        | \$ 0.22      |
| Diluted as reported  | \$ 0.07                        | \$ 0.19      |
| Basic pro forma  | \$ (0.01)                      | \$ 0.17      |
| Diluted pro forma  | \$ (0.01)                      | \$ 0.14      |

***Fair Value of Financial Instruments***

Cash equivalents, accounts receivable, accounts payable, other accrued liabilities, and debt are stated at amounts which approximate fair value due to the fact that maturities of these instruments are less than three years.

***Comprehensive Income***

Comprehensive income includes net income and other comprehensive income (loss) relating to foreign currency translations, and is presented in the Consolidated Statements of Changes in Stockholders' Equity. SFAS No. 130, *Reporting Comprehensive Income* establishes standards for reporting comprehensive income and its components in the financial statements. Accumulated other comprehensive income is presented as a separate component of stockholders' equity in the Company's Consolidated Balance Sheet.

***Recently Issued Accounting Standards***

In October 2004, the FASB issued SFAS No. 123R, *Share-Based Payment*. We are required to adopt SFAS No. 123R in the third quarter of fiscal 2005. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition of the fair value of employee stock incentive awards. See above for the pro forma net income and net income (loss) per share amounts, for fiscal 2003 and fiscal 2004, as if we had used a fair-value-based method similar to the methods required under SFAS No. 123R to measure compensation expense for such awards. Although we have not yet determined whether the adoption of SFAS No. 123R will result in amounts that are similar to the current pro forma disclosures under SFAS No. 123, we are evaluating the requirements under SFAS No. 123R and we do expect the adoption to have a significant adverse impact on our consolidated statements of income and net income per share.



**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Net Income Per Share**

Computations of the net income per share are as follows:

|  | <b>Year Ended December 31,</b> |               |
|--|--------------------------------|---------------|
|  | <b>2003</b>                    | <b>2004</b>   |
| Net income   | \$ 1,050,032                   | \$ 3,913,288  |
| Accretion of dividends on preferred stock                      | (157,632)                      |               |
| Net income available to common stockholders                    | 892,400                        | 3,913,288     |
| Basic:   |                                |               |
| Weighted-average shares of common stock outstanding            | 10,818,417                     | 16,963,708    |
| Weighted-average shares of common stock subject to contingency | 545,786                        | 684,867       |
| Shares used in computing basic net income per share            | 11,364,203                     | 17,648,575    |
| Effect of dilutive securities:                                 |                                |               |
| Preferred stock  | 2,531,436                      |               |
| Stock options  | 1,410,512                      | 2,835,672     |
| Warrants   |                                | 196,260       |
| Shares used in computing diluted net income per share          | \$ 15,306,151                  | \$ 20,680,507 |
| Basic net income per share                                     | \$ 0.08                        | \$ 0.22       |
| Diluted net income per share                                   | \$ 0.07                        | \$ 0.19       |

**4. Concentration of Credit Risk and Significant Customers**

Cash and accounts receivable potentially expose the Company to concentrations of credit risk. Cash is placed with highly rated financial institutions. The Company provides credit, in the normal course of business, to its customers. The Company generally does not require collateral or up-front payments. The Company performs periodic credit evaluations of its customers and maintains allowances for potential credit losses. Customers can be denied access to services in the event of non-payment. A substantial portion of the services the Company provides are built on IBM WebSphere® platforms and a significant number of its clients are identified through joint selling opportunities conducted with IBM, through sales leads obtained from the relationship with IBM and through a services agreement with IBM. Revenue from IBM accounted for approximately 35% and 17% of total revenue for 2003 and 2004, respectively, and accounts receivable from IBM accounted for approximately 37% and 11% of total accounts receivable as of December 31, 2003 and December 31, 2004, respectively. The loss of the Company's relationship with IBM, or a significant reduction in the services the Company provides for IBM would result in significantly decreased revenues and, as with the loss of any significant customer, management may need to counteract this type of revenue decrease by reducing headcount to align with the lower demand for the Company's services. Due to the Company's significant fixed operating expenses, the loss of sales to IBM could result in the Company's inability to generate net

income or positive cash flow from operations for some time in the future.

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**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**5. Employee Benefit Plan**

The Company has a qualified 401(k) profit sharing plan available to full-time employees who meet the plan's eligibility requirements. This defined contribution plan permits employees to make contributions up to maximum limits allowed by the Internal Revenue Code. The Company, at its discretion, matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting services. The Company made matching contributions equal to 25% of the first 6% of employee contributions totaling \$143,000 and \$268,000 during 2003 and 2004, respectively, which vest over a three year period of service.

**6. Intangible Assets with Indefinite Lives**

The changes in the carrying amount of intangible assets with indefinite lives for the year ended December 31, 2004 are as follows (in thousands):

|   | <b>Goodwill</b> |
|---|-----------------|
| Balance at December 31, 2003 and 2002           | \$ 11,329       |
| Acquisitions consummated during 2004 ( Note 13) | 22,133          |
| Utilization of net operating loss carryforwards | (644)           |
| <br>Balance at December 31, 2004                | <br>\$ 32,818   |

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, the Company performs an annual impairment test of goodwill. The Company evaluates goodwill at the enterprise level as of October 1 each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by SFAS No. 142, the impairment test is accomplished using a two-stepped approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. No impairment was indicated using data as of October 1, 2004. The Company also reviewed other factors to determine the likelihood of impairment. Based on these findings, the remaining net goodwill balance of \$32.9 million is not considered impaired at December 31, 2004.

***Intangible Assets with Definite Lives***

Following is a summary of the Company's intangible assets that are subject to amortization (in thousands):

|  | <b>Year Ended December 31,</b>       |                                     |                                    |                                      |                                     |                                    |
|--|--------------------------------------|-------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
|  | <b>2003</b>                          |                                     |                                    | <b>2004</b>                          |                                     |                                    |
|  | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> |
| <b>Business combinations:</b>                        |                                      |                                     |                                    |                                      |                                     |                                    |
| Customer relationships                               | \$ 3,600                             | \$ (3,267)                          | \$ 333                             | \$ 3,000                             | \$ (410)                            | \$ 2,590                           |
| Non-compete agreements                               | 550                                  | (518)                               | 32                                 | 1,950                                | (213)                               | 1,737                              |
| Customer backlog                                     |                                      |                                     |                                    | 400                                  | (206)                               | 194                                |
| <br><b>Balance at December 31, 2003<br/>and 2004</b> | <br><b>\$ 4,150</b>                  | <br><b>\$ (3,785)</b>               | <br><b>\$ 365</b>                  | <br><b>\$ 5,350</b>                  | <br><b>\$ (829)</b>                 | <br><b>\$ 4,521</b>                |



**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The estimated useful lives of acquired identifiable intangible assets are as follows:

|                        |                    |
|------------------------|--------------------|
| Customer relationships | 5 - 8 years        |
| Non-compete agreements | 3 - 5 years        |
| Customer backlog       | 9 months to 1 year |

The net carrying amount of intangible assets acquired in business combinations mainly relate to the Genisys Consulting Inc, Meritage Technologies, Inc., and ZettaWorks LLC acquisitions consummated during 2004.

Total amortization expense for the years ended December 31, 2003 and 2004 was approximately \$610,000 and \$696,000, respectively.

Estimated annual amortization expense for the next five years ended December 31 is as follows:

|      |    |           |
|------|----|-----------|
| 2005 | \$ | 1,101,000 |
| 2006 | \$ | 908,000   |
| 2007 | \$ | 840,000   |
| 2008 | \$ | 808,000   |
| 2009 | \$ | 556,000   |

**7. Stockholders Equity*****Preferred Stock***

The Company entered into a Convertible Preferred Stock Purchase Agreement, dated as of June 26, 2002, with 2M Technology Ventures, L.P. ( 2M ) under which the Company sold 1,111,000 shares of Series B Convertible Preferred Stock, par value of \$0.001 per share ( Series B Preferred Stock ), to 2M for a purchase price of approximately \$0.90 per share. Each share of Series B Preferred Stock was initially convertible into one share of Perficient common stock at the election of the holder. The agreement also stipulated criteria for the automatic conversion of Series B Preferred Shares into common shares in the event that the closing price for Perficient's common stock is greater than \$3.00 per share for 20 consecutive days with an average trading volume greater than 50,000 shares over that same period. As of November 11, 2003, the criteria for automatic conversion were met, and accordingly, all outstanding shares of Series B Preferred Stock were converted to 1,111,000 shares of common stock. The Series B Preferred Stock accrued dividends payable in common stock of the Company at an annual rate per share equal to \$0.90 multiplied by an 8% interest rate. Accrued dividends amounted to approximately \$157,000 for the year ended December 31, 2003. 2M was also given the option to purchase up to an additional 1,666,500 shares of Series B Preferred Stock on the same terms as described above; however, this option was not exercised and expired on June 26, 2003.

The Company entered into a Convertible Preferred Stock Purchase Agreement, dated as of December 21, 2001, with a limited number of investors under which the Company sold 1,984,000 shares of Series A Convertible Preferred Stock ( Series A Preferred Stock ) to such investors for a purchase price of \$1.00 per share. In connection with the sales of the Series A Preferred Stock, the Company also issued warrants to purchase 992,000 shares of common stock of the Company with an exercise price of \$2.00 per share. Each share of Series A Preferred Stock was initially convertible into one share of common stock of the Company based on a conversion ratio as defined in the agreement, initially set at a \$1.00 conversion price divided by the purchase price per share of Series A Preferred Stock, as adjusted from time to time based on certain anti-dilution provisions. As a result of the dilution caused by the Series B issuance discussed above, the conversion price for the Series A Preferred Stock

**PERFICIENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

decreased to approximately \$0.99. Additionally, the number of shares purchasable under the warrants increased to 1,001,920 for an exercise price of \$1.98 per share. Accrued dividends on the Series A Preferred Stock totaled approximately \$210,617 on November 10, 2003, the automatic conversion date. The Company paid cash dividends totaling \$45,457 to certain holders of Series A Preferred Stock who had voluntarily elected to convert their Series A Preferred Stock prior to the automatic conversion date. The accrued dividends on the Series A Preferred Stock that was not voluntarily converted prior to November 10, 2003 were forfeited under the terms of the Series A Preferred Stock designation.

***Common Stock***

In a private placement on June 16, 2004, the Company raised approximately \$2.5M of additional capital from investors by the issuance of 800,000 shares of the Company's stock at a price of \$3.09 per share. Under the terms of the Securities Purchase Agreement, the Company also issued warrants to the investors to purchase 160,000 shares of the Company's common stock at an exercise price of \$4.64 per share. These warrants have a term of two years. The fair value of these warrants of approximately \$389,000 was calculated using the Black-Scholes pricing model with the following assumptions- risk free interest rate of 2.98%; dividend yield of 0%; and a volatility factor of 1.515. In accordance with EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*, these warrants have been accounted for as permanent equity instruments.

In May 1999, the Company's Board of Directors and stockholders approved the 1999 Stock Option/ Stock Issuance Plan (the 1999 Plan). The 1999 Plan contains programs for (i) the discretionary granting of stock options to employees, non-employee board members and consultants for the purchase of shares of the Company's common stock, (ii) the discretionary issuance of common stock directly to eligible individuals, and (iii) the automatic issuance of stock options to non-employee board members. The Compensation Committee of the Board of Directors administers the 1999 Plan and determines the exercise price and vesting period for each grant. Options granted under the 1999 Plan have a maximum term of 10 years. In the event that the Company is acquired, whether by merger or asset sale or board-approved sale by the stockholders of more than 50% of the Company's voting stock, each outstanding option under the discretionary option grant program which is not to be assumed by the successor corporation or otherwise continued will automatically accelerate in full, and all unvested shares under the discretionary option grant and stock issuance programs will immediately vest, except to the extent the Company's repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect. The Compensation Committee may grant options under the discretionary option grant program that will accelerate in the acquisition even if the options are assumed or that will accelerate if the optionee's service is subsequently terminated.

The Compensation Committee may grant options and issue shares that accelerate in connection with a hostile change in control effected through a successful tender offer for more than 50% of the Company's outstanding voting stock or by proxy contest for the election of board members, or the options and shares may accelerate upon a subsequent termination of the individual's service.

The Company has granted stock options to various employees under the terms of their employment agreements. The stock options generally vest over three years. The term of each option is ten years from the date of grant.

The Company recognized \$135,927 and \$26,623 of stock compensation expense during 2003 and 2004, respectively, as a result of options granted to employees with exercise prices below the fair market value of the underlying common stock on the date of grant.



**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

On December 15, 2004, the Company granted restricted stock awards under the 1999 Stock Option/ Stock Issuance Plan to John T. McDonald, the Company's Chief Executive Officer, and Jeffrey S. Davis, the Company's President and Chief Operating Officer, of 175,000 and 87,500 shares of common stock, respectively. These restricted stock awards vest over seven years with 50% of the vesting in the last two years, subject to partial acceleration if certain revenue growth and operating profitability targets are met.

A summary of changes in common stock options during 2003 and 2004 is as follows:

|  | Shares    | Range of Exercise Prices |         | Weighted-Average Exercise Price |
|--|-----------|--------------------------|---------|---------------------------------|
| Options outstanding at January 1, 2003   | 4,390,726 | \$0.02                   | \$26.00 | \$ 2.82                         |
| Options granted                          | 2,416,373 | \$0.50                   | \$ 2.81 | \$ 1.53                         |
| Options exercised                        | (264,140) | \$0.03                   | \$ 1.39 | \$ 0.51                         |
| Options canceled                         | (816,767) | \$0.03                   | \$26.00 | \$ 2.66                         |
| Options outstanding at December 31, 2003 | 5,726,192 | \$0.02                   | \$26.00 | \$ 2.42                         |
| Options granted                          | 1,458,700 | \$3.00                   | \$ 6.31 | \$ 4.67                         |
| Options exercised                        | (491,804) | \$0.03                   | \$ 4.50 | \$ 1.34                         |
| Options canceled                         | (253,829) | \$0.50                   | \$13.25 | \$ 3.37                         |
| Options outstanding at December 31, 2004 | 6,439,259 | \$0.02                   | \$16.94 | \$ 2.97                         |
| Options vested, December 31, 2003        | 2,684,572 | \$0.02                   | \$16.94 | \$ 3.46                         |
| Options vested, December 31, 2004        | 3,226,827 | \$0.02                   | \$16.94 | \$ 2.85                         |

The following is additional information related to stock options outstanding at December 31, 2004:

| Range of Exercise Prices |         | Options   | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Options   | Weighted Average Exercise Price |
|--------------------------|---------|-----------|---------------------------------|---|-----------|---------------------------------|
| \$ 0.02                  | \$ 0.50 | 967,599   | \$ 0.40                         | 7.26  | 641,406   | \$ 0.34                         |
| \$ 0.74                  | \$ 1.41 | 1,427,714 | \$ 1.16                         | 7.31  | 1,202,958 | \$ 1.16                         |
| \$ 2.28                  | \$ 4.72 | 3,124,229 | \$ 3.07                         | 8.18  | 1,083,746 | \$ 3.65                         |
| \$ 5.07                  | \$10.00 | 744,774   | \$ 6.79                         | 9.19  | 123,774   | \$ 9.22                         |
| \$11.25                  | \$16.94 | 174,943   | \$ 14.19                        | 5.47  | 174,943   | \$ 14.19                        |
| \$ 0.02                  | \$16.94 | 6,439,259 | \$ 2.97                         | 7.89  | 3,226,827 | \$ 2.85                         |

At December 31, 2003 and 2004, the weighted-average remaining contractual life of outstanding options was 8.31 and 7.89 years, respectively. The weighted-average grant-date fair value per share of options granted during 2003 and 2004 at market prices was approximately \$1.53 and \$4.67 respectively. During 2003 and 2004 there were no option grants at below market prices. The weighted-average grant-date fair value per share of options granted during 2003 at above market prices was approximately \$1.15. During 2004 there were no option grants at above market prices.

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**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2004, no shares of common stock were reserved for future issuance upon conversion of preferred stock, 6,439,259 shares were reserved for future issuance upon exercise of outstanding options and 428,188 shares were reserved for future issuance upon exercise of outstanding warrants.

The following table summarizes information regarding warrants outstanding and exercisable as of December 31, 2004:

**Warrants Outstanding and Exercisable**

| Exercise Price     | Warrants |
|--------------------|----------|
| \$21.00            | 25,000   |
| \$12.00            | 100,000  |
| \$ 8.00            | 3,750    |
| \$ 4.64            | 160,000  |
| \$ 1.98            | 139,438  |
| <br>               |          |
| \$ 1.98    \$21.00 | 428,188  |

**8. Line of Credit and Long Term Debt**

The Company has a \$13.0 million credit facility comprising a \$9.0 million accounts receivable line of credit and a \$4.0 million acquisition term line of credit. The credit facility was amended on January 31, 2005 to increase the accounts receivable line of credit from \$6.0 million to \$9.0 million. The accounts receivable line of credit, which expires in December 2005, provides for a borrowing capacity of up to 80% of eligible accounts receivable, subject to certain borrowing base calculations as defined, but in no event more than \$9.0 million. Borrowings under this line of credit bear interest at the bank's prime rate plus 1.00% (5.75% at December 31, 2004). There were no amounts outstanding under this agreement as of December 31, 2003 or 2004.

The Company's \$4.0 million term acquisition line of credit provides an additional source of financing for certain qualified acquisitions. As of December 31, 2004 the balance outstanding under this acquisition line of credit was approximately \$3.8 million. Borrowings under this acquisition line of credit bear interest equal to the average four year U.S. Treasury note yield plus 3.50% the initial \$2.5 million draw, of which \$2.3 million remains outstanding, bears interest of 7.11% at December 31, 2004 and the subsequent \$1.5 million draw, all of which remains outstanding, bears interest of 6.90% at December 31, 2004 and are repayable in thirty-six equal monthly installments. The Company is entitled to make payments of accrued interest only for the first three monthly installments.

The Company is required to comply with various financial covenants under the \$13 million credit facility. It is required to maintain a minimum tangible net worth of at least \$3 million, to maintain a ratio of after tax earning before interest, depreciation and amortization, annualized, to current maturities of long-term debt plus interest of at least 1.50 to 1.00, and, pursuant to the January 31, 2005 amendment, to maintain a ratio of cash plus accounts receivable including 50% of unbilled revenue to all outstanding obligations to the bank of at least 1.50 to 1.00. As of December 31, 2004, the Company was in compliance with all covenants under this credit facility.

Notes payable to related party at December 31, 2003 and 2004 consisted of non interest-bearing notes issued to the shareholders of Javelin Solutions, Inc. ( Javelin ) in April 2002 in connection with the Company's acquisition of Javelin. The notes provide for payments totaling \$1,500,000, of which \$470,126 remained outstanding on December 31, 2004. The Company made payments totaling \$62,500 in January 2004 and \$312,500 in April 2004. The Company expects to make subsequent payments as

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

follows: \$250,000 in April 2005 and \$250,000 in April 2006. For financial reporting purposes, an imputed interest rate of 7.5% was used to compute the net present value of the note payments. These notes are subordinate to the Company's line of credit.

Future minimum debt repayments as of December 31, 2004 are as follows: (in thousands)

|                                   |    |         |
|-----------------------------------|----|---------|
| 2005                              | \$ | 1,620   |
| 2006                              |    | 1,733   |
| 2007                              |    | 1,251   |
| 2008                              |    | 139     |
| Thereafter                        |    |         |
|                                   |    | 4,742   |
| Less amount representing interest |    | (461)   |
| Present value of debt commitments |    | 4,281   |
| Less current portion              |    | (1,379) |
| Long term portion                 | \$ | 2,902   |

**9. Income Taxes**

As of December 31, 2004, the Company had tax net operating loss carry forwards of approximately \$9.0 million that will begin to expire in 2020 if not utilized.

Utilization of net operating losses may be subject to an annual limitation due to the change in ownership provisions of the Internal Revenue Code of 1986. The annual limitation may result in the expiration of net operating losses before utilization.

Significant components of the provision for income taxes attributable to continuing operations are as follows:

|  | <b>Year Ended December 31,</b> |              |
|--|--------------------------------|--------------|
|  | <b>2003</b>                    | <b>2004</b>  |
| Current:   |                                |              |
| Federal  | \$ 386,147                     | \$ 1,411,771 |
| Foreign  | 173,730                        | 254,952      |
| State  | 94,343                         | 235,552      |
| Total current  | 654,220                        | 1,902,275    |
| Tax benefit on acquired net operating loss carryforwards | 101,185                        | 312,357      |
| Tax benefit from stock options                           |                                | 341,789      |
| Deferred:  |                                |              |
| Federal  |                                | (26,421)     |
| Foreign  |                                |              |
| State  |                                | (2,331)      |
| Total deferred   |                                | (28,752)     |

|    |         |    |           |
|----|---------|----|-----------|
| \$ | 755,405 | \$ | 2,527,669 |
|----|---------|----|-----------|

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**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of pretax income for the years ended December 31, 2003 and 2004 are as follows:

|                | <b>Year Ended December 31,</b> |              |
|----------------|--------------------------------|--------------|
|                | <b>2003</b>                    | <b>2004</b>  |
| Domestic       | \$ 1,517,251                   | \$ 5,803,578 |
| Canada         | 186,491                        | 602,111      |
| United Kingdom | 101,695                        | 35,268       |
| Total          | \$ 1,805,437                   | \$ 6,440,957 |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes as of December 31, 2003 and 2004 are as follows:

|  | <b>December 31,</b> |                |
|--|---------------------|----------------|
|  | <b>2003</b>         | <b>2004</b>    |
| <b>Deferred tax assets:</b>                  |                     |                |
| <b>Current Deferred Tax Assets:</b>          |                     |                |
| Accrued liabilities                          | \$ 65,828           | \$ 146,538     |
| Net operating losses                         |                     | 326,277        |
| Deferred revenue                             | 2,775               | 2,775          |
| Bad Debt Reserve                             | 198,189             | 221,459        |
|  | 266,792             | 697,049        |
| Valuation Allowance                          | (201,019)           | (555,733)      |
| <b>Net Current Deferred Tax Assets</b>       | <b>65,773</b>       | <b>141,316</b> |
| <b>Non-current Deferred Tax Assets:</b>      |                     |                |
| Net operating losses                         | 463,668             | 2,987,423      |
| Fixed assets                                 | 134,648             | 112,376        |
| Deferred compensation                        | 92,899              |                |
|  | 691,215             | 3,099,799      |
| Valuation Allowance                          | (520,808)           | (2,471,364)    |
| <b>Net Non-current Deferred Tax Assets</b>   | <b>170,407</b>      | <b>628,435</b> |
| <b>Deferred tax liabilities:</b>             |                     |                |
| <b>Current Deferred Tax Liabilities:</b>     |                     |                |
| Deferred Income                              | 118,090             | 208,336        |
| <b>Non-current Deferred Tax Liabilities:</b> |                     |                |

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|   |                  |                  |
|---|------------------|------------------|
| Deferred Income                                   | 118,090          | 180,494          |
| Intangibles                                       |                  | 414,140          |
| <b>Total Non-current Deferred Tax Liabilities</b> | <b>118,090</b>   | <b>594,634</b>   |
| <b>Net Current Deferred Tax Liability</b>         | <b>(52,317)</b>  | <b>(67,020)</b>  |
| <b>Net Non-current Deferred Tax Asset</b>         | <b>\$ 52,317</b> | <b>\$ 33,801</b> |

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**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has established a valuation allowance to offset a portion of the Company's deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history and limitations on the utilization of acquired net operating losses. The valuation allowance decreased by approximately \$330,000 during 2003 and increased by approximately \$1,970,000 during 2004. The 2004 increase is primarily due to acquisitions made in 2004 offset by \$644,064 benefit of acquired net operating loss carryforwards. As of December 31, 2004, all of the valuation allowance relates to acquired entities, and as such, if realized, will reduce goodwill or other non-current intangible assets prior to resulting in an income tax benefit.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$600,000 at December 31, 2004. Those earnings are considered to be permanently reinvested; accordingly, no provision for US federal and/or state income taxes has been provided thereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company would be subject to both US income taxes (subject to an adjustment for foreign tax credits) and potentially withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred US income tax liability is not practicable due to the complexities associated with its hypothetical calculation.

The Company's provision for income taxes differs from the expected tax expense amount computed by applying the statutory federal income tax rate of 34% to income before income taxes as a result of the following:

|                                     | <b>Year Ended December 31,</b> |                     |
|-------------------------------------|--------------------------------|---------------------|
|                                     | <b>2003</b>                    | <b>2004</b>         |
| Tax at statutory rate of 34%        | \$ 613,849                     | \$ 2,189,926        |
| State taxes, net of federal benefit | 125,494                        | 180,220             |
| Intangibles amortization            | 207,542                        | 44,961              |
| Effect of foreign operations        | 75,739                         | 38,243              |
| Change in valuation allowance       | (330,332)                      |                     |
| Other                               | 63,113                         | 74,319              |
|                                     | <b>\$ 755,405</b>              | <b>\$ 2,527,669</b> |

**10. Commitments and Contingencies**

The Company leases its office facilities and certain equipment under various operating and capital lease agreements. The Company has the option to extend the term of certain of its office facilities leases. Future minimum commitments under these lease agreements are as follows:

| <b>December 31,</b>          | <b>Operating<br/>Leases</b> |
|------------------------------|-----------------------------|
| 2005                         | \$ 1,515,769                |
| 2006                         | 1,043,340                   |
| 2007                         | 569,275                     |
| 2008                         | 318,598                     |
| 2009                         | 229,636                     |
| Total minimum lease payments | <b>\$ 3,676,619</b>         |





**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Rent expense for the years ended December 31, 2003 and 2004 was \$1,322,000 and \$1,383,000, respectively.

In connection with certain of its acquisitions, the Company was required to establish various letters of credit totaling \$550,000 with Silicon Valley Bank and \$65,000 with Key Bank to serve as collateral for certain office space and equipment leases. The Company expects to retire the Key Bank letter of credit in the first half of 2005. These letters of credit with Silicon Valley Bank reduce the borrowings available under the Company's line of credit with Silicon Valley Bank. One letter of credit of \$300,000 will remain in effect through 2005, and the other letter of credit of \$250,000 will remain in effect through 2007.

**11. Segments of Business and Geographic Area Information**

The Company considers its business activities to constitute a single segment of business. A summary of the Company's operations by geographic area follows:

|                                  | <b>Year Ended December 31,</b> |                      |
|----------------------------------|--------------------------------|----------------------|
|                                  | <b>2003</b>                    | <b>2004</b>          |
| <b>Revenue:</b>                  |                                |                      |
| United States                    | \$ 29,169,721                  | \$ 57,735,199        |
| Canada                           | 905,905                        | 1,112,474            |
| United Kingdom                   | 116,296                        |                      |
| <b>Total revenue</b>             | <b>\$ 30,191,922</b>           | <b>\$ 58,847,673</b> |
| <b>Net income:</b>               |                                |                      |
| United States                    | \$ 863,929                     | \$ 3,511,335         |
| Canada                           | 3,630                          | 366,685              |
| United Kingdom                   | 182,473                        | 35,268               |
| <b>Total net income</b>          | <b>\$ 1,050,032</b>            | <b>\$ 3,913,288</b>  |
| <b>Identifiable assets:</b>      |                                |                      |
| United States                    | \$ 19,935,222                  | \$ 62,243,063        |
| Canada                           | 243,379                        | 300,662              |
| United Kingdom                   | 81,382                         | 38,640               |
| <b>Total identifiable assets</b> | <b>\$ 20,259,983</b>           | <b>\$ 62,582,365</b> |

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**12. Balance Sheet Components**

|   | <b>December 31,</b> |                      |
|---|---------------------|----------------------|
|   | <b>2003</b>         | <b>2004</b>          |
| <b>Accounts receivable:</b>                     |                     |                      |
| Accounts receivable                             | \$ 4,932,165        | \$ 12,426,107        |
| Unbilled revenue                                | 1,225,437           | 8,277,573            |
| Allowance for doubtful accounts                 | (622,995)           | (654,180)            |
| <b>Total</b>                                    | <b>\$ 5,534,607</b> | <b>\$ 20,049,500</b> |
| <b>Other current liabilities:</b>               |                     |                      |
| Accrued bonuses                                 | \$ 1,150,614        | \$ 2,094,987         |
| Accrued vacation                                | 220,443             | 395,127              |
| Other payroll liabilities                       | 35,934              | 714,049              |
| Sales and use taxes                             | 85,187              | 221,249              |
| Accrued income taxes                            | 425,977             | 170,354              |
| Other accrued expenses                          | 484,524             | 1,702,853            |
| Accrued acquisition costs related to ZettaWorks |                     | 317,982              |
| Accrued subcontractor fees                      |                     | 510,018              |
| Deferred revenue                                | 262,107             | 624,349              |
| <b>Total</b>                                    | <b>\$ 2,664,787</b> | <b>\$ 6,750,968</b>  |

**13. Business Combinations*****Acquisition of Genisys Consulting, Inc.***

On April 2, 2004, the Company consummated the acquisition of Genisys Consulting, Inc, a privately held information technology consulting company, for approximately \$8.8 million, consisting of approximately \$1.5 million in cash, transaction costs of approximately \$0.5 million, approximately 1.7 million shares of Perficient's common stock valued at \$3.77 per share (approximately \$6.4 million worth of Company's common stock) and stock options valued at approximately \$0.4 million. The total purchase consideration of \$8.8 million has been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such preliminary allocation resulted in goodwill of approximately \$7.4 million. Goodwill is assigned at the enterprise level and is not expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on an independent appraisal and management's estimate. Management expects to finalize the purchase price allocation during the first quarter of 2005 as certain initial purchase accounting estimates are resolved such as the collectibility of acquired accounts receivable. The results of the Genisys operations have been included in the Company's consolidated financial statements since April 2, 2004. As a result of the acquisition, the Company expects to grow its customer base and revenues, add new IT consulting expertise and increase the number of its billable consultants, gain a presence in a new and strategic geographic market and add new domain expertise and solutions offerings it can offer to customers through its network of offices.

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The preliminary purchase price allocation is as follows (in millions):

|                                       |        |
|---------------------------------------|--------|
| Intangibles:                          |        |
| Customer relationships                | \$ 1.1 |
| Non-compete agreements                | 0.4    |
| Customer backlog                      | 0.2    |
| Goodwill                              | 7.4    |
| Tangible Assets and Liabilities       |        |
| Accounts receivable                   | 1.2    |
| Other current assets                  | 0.1    |
| Property and equipment                | 0.1    |
| Accounts payable and accrued expenses | (0.4)  |
| Deferred income tax liability         | (1.0)  |
| Income tax payable                    | (0.3)  |
| Net assets acquired                   | \$ 8.8 |

The Company believes that the intangible assets acquired have useful lives of nine months to eight years.

***Acquisition of Meritage Technologies, Inc.***

On June 18, 2004, the Company consummated the acquisition of Meritage Technologies, Inc., a privately held information technology consulting company for approximately, \$10.4 million, consisting of approximately \$2.9 million in cash, \$2.4 of liabilities repaid on behalf of Meritage Technologies, Inc., transaction costs of approximately \$0.9 million, and approximately 1.2 million shares of the Company's common stock valued at approximately \$3.595 per share (approximately \$4.2 million worth of Company's common stock). The total purchase price consideration of \$10.4 million, including transaction costs of \$0.9 million, has been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such preliminary allocation resulted in goodwill of approximately \$7.4 million. Goodwill is assigned at the enterprise level and is not expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate with assistance from an independent appraisal firm. Management expects to finalize the purchase price allocation during the second quarter of 2005 as certain initial accounting estimates are resolved such as the collectibility of acquired accounts receivable. The results of the Meritage operations have been included in the Company's consolidated financial statements since June 18, 2004. As a result of the acquisition, the Company expects to grow its customer base and revenues, add new IT consulting expertise and increase the number of its billable consultants, gain a presence in a new and strategic geographic market and add new domain expertise and solutions offerings it can offer to customers through its network of offices.

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The preliminary purchase price allocation is as follows (in millions):

|   |         |
|---|---------|
| Intangibles:                              |         |
| Customer relationships                    | \$ 0.3  |
| Non-compete agreements                    | 1.5     |
| Goodwill                                  | 7.4     |
| Tangible Assets and Liabilities Acquired: |         |
| Accounts receivable                       | 2.2     |
| Property and equipment                    | 0.1     |
| Accounts payable and accrued expenses     | (1.1)   |
| Net assets acquired                       | \$ 10.4 |

The Company believes that the intangible assets acquired have useful lives of five years. The Company has accrued exit costs of approximately \$0.2 million, which relates to lease obligations for excess office space that the Company has vacated or intends to vacate under the approved facilities exit plan. The estimated costs of vacating these leased facilities, including estimated costs to sub-lease, and sub-lease income were based on market information and trend analysis as estimated by the Company. It is reasonably possible that actual results could differ from these estimates in the near term. The Company has accrued severance of \$0.2 million, which relate to severance and related payroll taxes for certain employees of Meritage Technologies, Inc. impacted by the approved plan of termination. The Company acquired deferred tax assets of approximately \$1.9 million. These assets primarily relate to net losses incurred by Meritage Technologies, Inc. prior to the acquisition. The Company has placed a full valuation allowance on these assets given the level of cumulative historical losses for both Meritage Technologies, Inc. and the Company.

***Acquisition of ZettaWorks LLC***

On December 20, 2004, the Company consummated the acquisition of ZettaWorks LLC, a privately held information technology consulting company for approximately, \$11.4 million, consisting of approximately \$2.9 million in cash, transaction costs of approximately \$0.7 million, and approximately 1.2 million shares of the Company's common stock valued at approximately \$6.537 per share (approximately \$7.8 million worth of Company's common stock). The total purchase price consideration of \$11.4 million, including transaction costs of \$0.7 million, have been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such preliminary allocation resulted in goodwill of approximately \$8.2 million. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate with assistance from an independent appraisal firm. Management expects to finalize the purchase price allocation within the next twelve months as certain initial accounting estimates are resolved such as the collectibility of acquired accounts receivable. The results of the ZettaWorks operations have been included in the Company's consolidated financial statements since December 20, 2004. As a result of the acquisition, the Company expects to grow its customer base and revenues, add new IT consulting expertise and increase the number of its billable consultants, gain a presence in a new and strategic geographic market and add new domain expertise and solutions offerings it can offer to customers through its network of offices.

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The preliminary purchase price allocation is as follows (in millions):

|   |         |
|---|---------|
| Intangibles:                              |         |
| Customer relationships                    | \$ 1.1  |
| Customer backlog                          | 0.2     |
| Non-compete agreements                    | 0.1     |
| Goodwill                                  | 8.1     |
| Tangible Assets and Liabilities Acquired: |         |
| Accounts receivable                       | 3.0     |
| Property and equipment                    | 0.1     |
| Accounts payable and accrued expenses     | (1.2)   |
| Net assets acquired                       | \$ 11.4 |

The Company believes that the intangible assets acquired have useful lives of one to five years.

***Pro-forma Results of Operations***

The following presents the unaudited pro-forma combined results of operations of the Company with Genisys Consulting, Inc., Meritage Technologies, Inc, and ZettaWorks LLC, for the years ended December 31, 2003 and 2004 after giving effect to certain pro forma adjustments related to the amortization of acquired intangible assets. These unaudited pro-forma results are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2003 and 2004 or of future results of operations of the consolidated entities:

|                                 | Year Ended December 31, |               |
|---------------------------------|-------------------------|---------------|
|                                 | 2003                    | 2004          |
| Revenues                        | \$ 72,916,131           | \$ 85,594,693 |
| Net Income (Loss)               | \$ (1,707,099)          | \$ 3,225,041  |
| Basic Income (Loss) Per Share   | \$ (0.10)               | \$ 0.16       |
| Diluted Income (Loss) Per Share | \$ (0.10)               | \$ 0.14       |

**14: Subsequent Event**

The Company has engaged an investment banking firm to act as its exclusive advisor in an offering to sell the Company's common stock in a secondary offering. The Company anticipates raising between \$25 million and \$50 million.

Underwriting discounts are expected to be between \$1.5 million to \$3.0 million depending on the actual number of shares sold and amount raised.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Perficient, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Perficient, Inc. and Subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Perficient, Inc. and Subsidiaries at December 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP  
Austin, Texas  
January 9, 2004

**PERFICIENT, INC.**  
**CONSOLIDATED BALANCE SHEETS**

|   | December 31,         |                      |
|---|----------------------|----------------------|
|   | 2002                 | 2003                 |
| <b>ASSETS</b>   |                      |                      |
| Current assets:   |                      |                      |
| Cash  | \$ 1,525,002         | \$ 1,989,395         |
| Accounts receivable, net of allowance for doubtful accounts of \$661,248 in 2002 and \$622,995 in 2003  | 3,938,373            | 5,534,607            |
| Other current assets  | 382,542              | 297,058              |
| <b>Total current assets</b>   | <b>5,845,917</b>     | <b>7,821,060</b>     |
| Property and equipment:   |                      |                      |
| Hardware  | 1,496,429            | 1,685,577            |
| Furniture and fixtures  | 726,861              | 655,662              |
| Leasehold improvements  | 234,285              | 234,671              |
| Software  | 248,697              | 263,059              |
| Accumulated depreciation  | (1,495,254)          | (2,139,824)          |
| <b>Net property and equipment</b>   | <b>1,211,018</b>     | <b>699,145</b>       |
| Net intangible assets   | 12,380,039           | 11,693,834           |
| Other noncurrent assets   | 156,129              | 45,944               |
| <b>Total assets</b>   | <b>\$ 19,593,103</b> | <b>\$ 20,259,983</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                      |                      |
| Current liabilities:  |                      |                      |
| Accounts payable  | \$ 426,686           | \$ 129,895           |
| Line of credit  | 540,011              |                      |
| Current portion of capital lease obligation   | 235,034              |                      |
| Other current liabilities   | 2,304,433            | 3,310,872            |
| Current portion of note payable to related party  | 485,477              | 366,920              |
| <b>Total current liabilities</b>  | <b>3,991,641</b>     | <b>3,807,687</b>     |
| Note payable to related party, less current portion   | 745,318              | 436,258              |
| Capital lease obligation, less current portion  | 334,661              |                      |
| <b>Total liabilities</b>  | <b>5,071,620</b>     | <b>4,243,945</b>     |
| Stockholders equity:  |                      |                      |
| Preferred stock, \$0.001 par value; 8,000,000 shares authorized; 3,095,000 shares in 2002 and 0 shares in 2003 issued and outstanding         | 3,095                |                      |
| Common stock, \$0.001 par value; 40,000,000 shares authorized; 10,537,226 shares in 2002 and 14,033,246 shares in 2003 issued and outstanding | 10,537               | 14,033               |
| Additional paid-in capital  | 75,993,344           | 76,315,780           |



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|   |               |               |
|---|---------------|---------------|
| Unearned stock compensation               | (164,773)     | (26,623)      |
| Accumulated other comprehensive loss      | (35,366)      | (51,830)      |
| Retained deficit                          | (61,285,354)  | (60,235,322)  |
| Total stockholders equity                 | 14,521,483    | 16,016,038    |
| Total liabilities and stockholders equity | \$ 19,593,103 | \$ 20,259,983 |

*See accompanying notes.*

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**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

|   | <b>Year Ended December 31,</b> |                     |
|---|--------------------------------|---------------------|
|   | <b>2002</b>                    | <b>2003</b>         |
| <b>Revenue</b>  |                                |                     |
| Services  | \$ 20,391,587                  | \$ 24,534,617       |
| Software  | 402,889                        | 3,786,864           |
| Reimbursable expenses                                     | 1,655,808                      | 1,870,441           |
| <b>Total revenue</b>                                      | <b>22,450,284</b>              | <b>30,191,922</b>   |
| <b>Cost of revenue</b>                                    |                                |                     |
| Project personnel costs                                   | 11,210,272                     | 13,411,762          |
| Software costs  | 343,039                        | 3,080,894           |
| Reimbursable expenses                                     | 1,655,808                      | 1,870,441           |
| Other project related expenses                            | 330,100                        | 453,412             |
| <b>Total cost of revenue</b>                              | <b>13,539,219</b>              | <b>18,816,509</b>   |
| <b>Gross margin</b>                                       | <b>8,911,065</b>               | <b>11,375,413</b>   |
| Selling, general and administrative                       | 8,327,010                      | 7,857,081           |
| Stock compensation  | 240,688                        | 135,927             |
| Depreciation  | 687,570                        | 670,436             |
| Intangibles amortization                                  | 1,285,524                      | 610,421             |
| Restructuring, severance and other                        | 579,427                        |                     |
| <b>Income (loss) from operations</b>                      | <b>(2,209,154)</b>             | <b>2,101,548</b>    |
| Interest income   | 17,732                         | 3,286               |
| Interest expense  | (203,569)                      | (285,938)           |
| Other   | (53)                           | (13,459)            |
| <b>Income (loss) before income taxes</b>                  | <b>(2,395,044)</b>             | <b>1,805,437</b>    |
| Provision for income taxes                                |                                | 755,405             |
| <b>Net income (loss)</b>                                  | <b>\$ (2,395,044)</b>          | <b>\$ 1,050,032</b> |
| Beneficial conversion charge on preferred stock           | (1,672,746)                    |                     |
| Accretion of dividends on preferred stock                 | (163,013)                      | (157,632)           |
| <b>Net income (loss) available to common stockholders</b> | <b>\$ (4,230,803)</b>          | <b>\$ 892,400</b>   |
| <b>Basic net income (loss) per share</b>                  | <b>\$ (0.53)</b>               | <b>\$ 0.08</b>      |
| <b>Diluted net income (loss) per share</b>                | <b>\$ (0.53)</b>               | <b>\$ 0.07</b>      |

*See accompanying notes.*



**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

|                 | Preferred Stock |        | Common Stock |          | Subscription<br>Receivable | Warrants | Additional<br>Paid-In<br>Capital | Unearned<br>Stock<br>Compen<br>sation | Accumulated<br>Other<br>Comprehensive<br>Loss | Retained<br>Deficit | St |
|-----------------|-----------------|--------|--------------|----------|----------------------------|----------|----------------------------------|---------------------------------------|---|---------------------|----|
|                 | Shares          | Amount | Shares       | Amount   |                            |          |                                  |                                       |   |                     |    |
| 002             |                 | \$     | 6,288,566    | \$ 6,289 | \$                         | \$       | \$ 66,140,446                    | \$ (348,021)                          | \$ (72,103)                                   | \$ (58,890,310)     | \$ |
| ck<br>in        |                 |        | 4,210,799    | 4,211    |                            |          | 7,213,875                        | (266,173)                             |   |                     |    |
| ck,<br>nt<br>ow | 1,984,000       | 1,984  |              |          | (1,984,000)                |          | 1,982,016                        |                                       |   |                     |    |
| A<br>ck         |                 |        |              |          |                            | 426,560  | (426,560)                        |                                       |   |                     |    |
| ck<br>m         |                 |        |              |          | 1,984,000                  |          |                                  |                                       |   |                     |    |
| t               |                 |        |              |          |                            |          |                                  |                                       |   |                     |    |
| ck              |                 |        |              |          |                            | 6,595    | (109,040)                        |                                       |   |                     |    |
| ck<br>t         | 1,111,000       | 1,111  |              |          |                            |          | 998,889                          |                                       |   |                     |    |
| ck              |                 |        |              |          |                            |          | (38,284)                         |                                       |   |                     |    |
| B<br>ck         |                 |        |              |          |                            |          |                                  |                                       |   |                     |    |
| s               |                 |        | 37,861       | 37       |                            |          | 7,580                            |                                       |   |                     |    |
| ck<br>n         |                 |        |              |          |                            |          | (208,733)                        | 208,733                               |   |                     |    |

