

PERFICIENT INC
Form 10-K
March 31, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark one)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year-ended December 31, 2005

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 001-15169

PERFICIENT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

No. 74-2853258

(I.R.S. Employer Identification No.)

1120 South Capital of Texas Highway, Building 3, Suite 220

Austin, Texas 78746

(Address of principal executive offices)

(512) 531-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$0.001 par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

␣

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$144.4 million on June 30, 2005 based on the last reported sale price of the Company's common stock on the NASDAQ National Market on June 30, 2005.

As of March 8, 2006, there were 24,212,964 shares of Common Stock outstanding.

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PART I

Item 1. Business.

Overview

We are a rapidly growing information technology consulting firm serving Global 2000 and midsize companies throughout the 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 eBusiness solutions using a core set of software products developed by our partners. Our solutions include custom applications, portals and collaboration, eCommerce, online customer management, enterprise content management, business intelligence, business integration, mobile technology, technology platform implementations and service oriented architectures and enterprise service bus. 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 solutions for more than 500 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 we have built the leading independent information technology consulting firm in the central United States. We serve our central United States customers from our network of twelve offices throughout the central United States and Canada. In addition, we have over 100 colleagues who are part of “national” business units, who travel extensively to serve clients throughout the United States. Our future growth plan includes expanding our business throughout the United States, both through expansion of our national travel practices and through opening new offices, both organically and through acquisitions, in areas outside the central United States. In 2003, 2004 and 2005, \$29,169,721, \$57,735,199 and \$95,721,425 of our revenue, respectively, was derived from customers in the United States while \$905,905, \$1,112,474 and \$1,275,776 of our revenue, respectively, was derived from customers in Canada. In addition, \$116,296 of our revenue in 2003 was derived from customers in the United Kingdom. We had assets located in the United States of \$19,935,222, \$62,243,063 and \$84,600,070 in 2003, 2004 and 2005, respectively and assets located in Canada of \$243,379, \$300,662 and \$334,831 in 2003, 2004 and 2005, respectively. We also had assets of \$81,382 and \$38,640 located in the United Kingdom in 2003 and 2004, respectively.

We place strong emphasis on building lasting relationships with clients. Over the past three years ending December 31, 2005, an average of 85% of revenue, 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. 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 six years, we have acquired and integrated nine privately held information technology consulting firms, three of which were acquired in 2004, and two of which were acquired in 2005. 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:

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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 2005. 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 Gartner Dataquest, total information technology services spending in North America is expected to achieve a 6.5% compound annual growth rate through 2009, resulting in a \$347 billion market.

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 multiplier of each dollar spent

on software. For example, IDC had projected 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:

§ *DomainExpertise*. Through our experience developing and delivering solutions for more than 500 Global 2000 and midsize companies, we have acquired significant domain expertise in a core set of eBusiness solutions and software platforms. These solutions include custom applications, portals and collaboration, eCommerce, customer management, enterprise content management, business intelligence, business integration, mobile technology solutions, technology platform implementations and service oriented architectures and enterprise service bus. The platforms in which we have significant domain expertise and on which these solutions are built include IBM WebSphere, TIBCO BusinessWorks, Microsoft.NET, Cognos and Documentum, among others.

§ *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. Over the past three years ending December 31, 2005, an average of 85% of revenue, 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, a Microsoft Gold Certified Partner and a Documentum Select Services Team Partner.

§ *Geographic Focus.* We believe we have built the leading independent information technology consulting firm in the central United States. We serve our central United States customers from our network of twelve offices throughout the central United States and Canada. In addition, we have over 100 colleagues who are part of "national" business units, who travel extensively to serve clients throughout the United States. Our future growth plan includes expanding our business throughout the United States, both through expansion of our national travel practices and through opening new offices, both organically and through acquisition, in areas outside the central United States. We believe our central United States network provides a competitive platform from which to expand nationally.

§ *Emerging Offshore Capability.* We maintain 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 eBusiness 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;

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§ 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:

§ *Custom applications.* We design, develop, implement and integrate custom application solutions that deliver enterprise-specific functionality to meet the unique requirements and needs of our clients. Perficient's substantial experience with platforms including J2EE, .Net and open-source - plus our flexible delivery structure - enables enterprises of all types to leverage cutting-edge technologies to meet business-driven needs.

§ *Enterprise portals and collaboration.* We design, develop, implement and integrate secure and scalable enterprise portals for our clients and 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.* We design, develop and implement secure and reliable ecommerce infrastructures that dynamically integrate with back-end systems and complementary applications that provide for transaction volume scalability and sophisticated content management.

§ *Online customer relationship management (eCRM).* We design, develop and implement 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, prototype driven solution and integrating the solution to legacy processes and applications.

§ *Enterprise content management.* We design, develop and implement Enterprise Content Management (ECM) solutions that enable the management of all unstructured information regardless of file type or format. Our ECM solutions can facilitate the creation of new content and/or provide easy access and retrieval of existing digital assets from other enterprise tools such as enterprise resource planning (ERP), customer relationship management or legacy applications. Perficient's ECM solutions include Enterprise Imaging and Document Management, Web Content Management, Digital Asset Management, Enterprise Records Management, Compliance and Control, Business Process Management and Collaboration and Enterprise Search.

§ *Business intelligence.* We design, develop and implement business intelligence solutions that allow companies to interpret and act upon accurate, timely and integrated information. By classifying, aggregating and correlating data into meaningful business information, business intelligence solutions help our clients make more informed business decisions. Our business intelligence solutions allow our clients to transform data into knowledge for quick and effective decision making and can include information strategy, data warehousing and business analytics and reporting.

§ *Business integration.* We design, develop and implement business integration solutions that allow our clients to integrate all of their business processes end-to-end and across the enterprise. Truly innovative companies are

extending those processes, and eliminating functional friction, between the enterprise and core customers and partners. Our business integration solutions can extend and extract 'Green-Screen' applications, reduce infrastructure strains and cost, Web-enable legacy applications, provide real-time insight into business metrics and introduce efficiencies for customers, suppliers and partners.

§ *Mobile technology solutions.* We design, develop and implement mobile technology solutions that deliver wireless capabilities to carriers, Mobile Virtual Network Operators (MVNO), Mobile Virtual Network Enablers (MVNE), and the enterprise. Perficient's expertise with wireless technologies such as SIP, MMS, WAP, and GPRS are coupled with our deep expertise in mobile content delivery. Our secure and scalable solutions can include mobile content delivery systems; wireless value-added services including SIP, IMS, SMS, MMS and Push-to-Talk; custom developed applications to pervasive devices including Symbian, WML, J2ME, MIDP, Linux; and customer care solutions including provisioning, mediation, rating and billing.

§ *Technology platform implementations.* We design, develop and implement technology platform implementations that allow our clients to establish a robust, reliable Internet-based infrastructure for integrated business applications, which extend enterprise technology assets to employees, customers, suppliers and partners. Our Platform Services include application server selection, architecture planning, installation and configuration, clustering for availability, performance assessment and issue remediation, security services and technology migrations.

§ *Service oriented architectures and enterprise service bus.* We design, develop and implement service oriented architecture and enterprise service bus solutions that allow our clients to quickly adapt their business processes to respond to new market opportunities or competitive threats by taking advantage of business strategies supported by flexible business applications and IT infrastructures.

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, enhanced 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.

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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, and an IBM Course Suite with over 20 distinct courses covering the IBM WebSphere product suite. 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 premier independent eBusiness consulting firm in the United States. To achieve our goal, our strategy is to:

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§ *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 six 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 and look to expand our capabilities and geographic presence, including offshore.

§ *Expand Nationally.* We believe we have built the leading independent information technology consulting firm in the central United States. We serve our central United States customers from our network of twelve offices throughout the central United States and Canada. In addition, we have over 100 colleagues who are part of “national” business units, who travel extensively to serve clients throughout the United States. Our future growth plan includes expanding our business throughout the United States, both through expansion of our national travel practices and through opening new offices, both organically and through acquisition, in areas outside the central United States. We believe our central United States network provides a competitive platform from which to expand nationally.

§ *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, we maintain a small offshore development and delivery facility in Macedonia.

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Sales and Marketing

We have a 24 person direct solutions-oriented sales force that sells from 10 of our 12 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 83% of our sales are executed by our direct sales force.

Our target client base includes companies in the 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, Cognos, Inc., 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.

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 solutions for more than 500 Global 2000 and midsize companies to date. In the year ended December 31, 2005, we provided services to approximately 295 customers. The following is a list of our top 10 customers by revenue, for the year ended December 31, 2005:

§	IBM Corporation;
§	Cingular;
§	Assurant/Fortis, Inc.;
§	Wachovia Corporation;
§	Centene Corporation;
§	Union Bank of California;
§	Tufts Health Plan;

§ Nationwide Services Company;
§ Anheuser-Busch; and
§ EMC Corporation.

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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 Sapient 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

During our latest fiscal quarter ended December 31, 2005, we averaged 580 colleagues, 502 of which were billable professionals, including 138 subcontractors, and 78 of which were involved in sales, general administration and marketing. Our employees are not represented by a collective bargaining agreement and we have never experienced a strike or similar work stoppage. We consider our relations with our employees to be good.

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. We 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.

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. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material, or furnish it to, the Securities and Exchange Commission. The information contained or incorporated in our website is not part of this document.

Item 1A. Risk Factors.

You should carefully consider the following risk factors together with the other information contained in or incorporated by reference into this annual report 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 middleware and Internet software and services has changed rapidly over the last seven years. The market for middleware and 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, 2004 and 2005, 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 middleware and Internet services are subject to a high level of uncertainty. Prolonged weakness in the middleware and 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. We also use independent subcontractors where appropriate. 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 attracting and retaining senior management 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. In addition, as we rapidly grow our business, our need for senior experienced management and delivery personnel increases substantially. If a significant number of these individuals stop working for us, or if we are unable to attract top talent, our level of management, technical, marketing and sales expertise could diminish or otherwise be insufficient for our growth. 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 liabilities or problems of the acquired business including legal liabilities;

- 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.

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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 and through sales leads obtained from our relationship with IBM. Revenue from IBM was approximately 9%, 17% and 35% of total revenue for the years ended December 31, 2005, 2004 and 2003, 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 our results of operations.

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 eleven 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 and cash flows could be adversely affected.

Our ability to operate profitably with positive cash flows 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 and cash flows will not be sufficient to offset these expenses and our results of operations and cash flows could be adversely affected.

We have recorded deferred offering costs in connection with the conversion of our registration statement into a shelf registration statement, and our inability to net these costs against the proceeds of future offerings from our shelf registration statement could result in a non-cash expense in our Statement of Operations in a future period.

We initially filed a registration statement with the Securities and Exchange Commission on March 7, 2005 to register the offer and sale by the Company and certain selling stockholders of shares of our common stock. Due to overall market conditions during the second quarter, we converted our registration statement into a shelf registration statement to allow for offers and sales of common stock from time to time as market conditions permit. To date, we have recorded approximately \$942,000 of deferred offering costs (approximately \$579,000 after tax, if ever expensed) in connection with the offering and have classified these costs as prepaid expenses in other non-current assets on our balance sheet.

If we sell shares of common stock from our shelf registration statement, we will be allowed to net these accumulated deferred offering costs against the proceeds of the offering. If we do not raise funds through an equity offering from the shelf registration statement or fail to maintain the effectiveness of the shelf registration statement, the currently capitalized deferred offering costs will be expensed. Such expense would be a non-cash accounting charge as all of these expenses have already been paid.

The Public Company Accounting Oversight Board, or PCAOB, is conducting an annual inspection of our external auditors BDO Seidman, LLP.

The PCAOB is a new private agency established to oversee the auditors of publicly held companies. In 2005, the PCAOB conducted an annual inspection of BDO Seidman, LLP (BDO), as they do with all other large public accounting firms that audit the financial statements of publicly held companies. The PCAOB inspected BDO's audits of a number of BDO clients, including BDO's audit of our financial statements for the year ended December 31, 2004. The PCAOB staff has told BDO they differ with our accounting for forfeitable shares of stock issued in connection with one of our acquisitions in 2004 and has referred this matter to its Board. We and BDO believe that our accounting for this acquisition is correct. If it were ultimately determined that different accounting should be used for this acquisition, we estimate the resulting accounting impact would be a non-cash expense of approximately \$600,000 per year after taxes over a period of three years from the date of the acquisition and a reduction in the acquisition's purchase price of \$3.1 million reflected on our balance sheet as reductions in goodwill and stockholders' equity as of the acquisition date. The PCAOB's inspection of BDO is ongoing and there can be no assurance as to its final scope or completion.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this annual report 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,” “believes,” “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 annual report.

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 annual report to conform such statements to actual results.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We maintain twelve offices spanning the central United States and Canada from Houston, Texas to London, Ontario. Our office space is leased and is located in St. Louis, Missouri (10,515 square feet), Minneapolis, Minnesota (14,000 square feet), Downers Grove, Illinois (4,187 square feet), Chicago, Illinois (5,927 square feet), Franklin, Ohio (6,684 square feet), Carmel, Indiana (5,194 square feet), Columbus, Ohio (7,550 square feet), Detroit, Michigan (5,500 square feet), Houston, Texas (6,112 square feet), Dallas, Texas (7,420 square feet) and London, Ontario (2,447 square feet). Our corporate headquarters are located in Austin, Texas (2,701 square feet).

Item 3. Legal Proceedings.

Although we may become 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.

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

The following matters were voted upon at the Annual Meeting of Stockholders held on November 17, 2005:

1. Each of persons listed below were nominated for election to the board of directors and were elected to serve as directors as indicated below:

	<u>For</u>	<u>Withheld</u>	<u>Abstentions</u>
John T. McDonald	17,626,978	227,805	—
David S. Lundeen	17,286,986	567,797	—
Max D. Hopper	17,488,478	366,305	—
Kenneth R. Johnsen	17,554,551	300,232	—
Ralph C. Derrickson	17,661,203	193,580	—

2. An amendment to our certificate of incorporation, increasing the total number of authorized shares of Common Stock from 40,000,000 shares to 50,000,000 shares, was approved as indicated below:

Shares Voted For:	17,489,120
Shares Voted Against:	343,332
Shares Abstained:	22,331

3. The Perficient, Inc. Employee Stock Purchase Plan, pursuant to which our employees may purchase shares of Common Stock from time to time, was adopted as indicated below:

Shares Voted For:	10,631,434
Shares Voted Against:	390,644
Shares Abstained:	78,763

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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.

	High	Low
Year Ending December 31, 2004:		
First Quarter	\$ 4.32	\$ 2.36
Second Quarter	5.00	3.10
Third Quarter	4.00	2.91
Fourth Quarter	6.96	3.84
Year Ending December 31, 2005:		
First Quarter	\$ 9.44	\$ 6.80
Second Quarter	7.99	5.30
Third Quarter	8.35	6.74
Fourth Quarter	9.55	7.20

On March 27, 2006, the last reported sale price of our common stock on the NASDAQ National Market was \$11.83 per share. There were approximately 128 stockholders of record of our common stock as of March 27, 2006.

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 and Key Bank.

Item 6. Selected Financial Data.

The financial data presented are not directly comparable between periods as a result of the acquisitions of iPath Solutions, Ltd. and Vivare, Inc. in 2005, the acquisitions of Genisys Consulting, Inc., Meritage Technologies, Inc. and ZettaWorks LLC in 2004, and the acquisitions of Javelin Solutions, Inc. and Vertecon, Inc. in 2002.

Revenue and cost of revenue are not directly comparable between periods because revenue and cost of revenue for 2001 is shown net of project related expenses, consisting of reimbursable expenses and other project related expenses. Revenue and cost of revenue were not reclassified for the year ended 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 2001 has no effect on periods beginning after December 31, 2001.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
Revenue:					
Services	\$ 20,416,643	\$ 20,391,587	\$ 24,534,617	\$ 43,330,757	\$ 83,739,808
Software	—	402,889	3,786,864	13,169,693	9,386,983
Reimbursable expenses	—	1,655,808	1,870,441	2,347,223	3,870,410
Total revenue	20,416,643	22,450,284	30,191,922	58,847,673	96,997,201
Cost of revenue(1):					
Project personnel costs	11,879,224	11,210,272	13,411,762	26,072,516	51,140,335
Software costs	—	343,039	3,080,894	11,341,145	7,722,166
Reimbursable expenses	—	1,655,808	1,870,441	2,347,223	3,870,410
Other project related expenses	—	330,100	453,412	267,416	1,845,873
Total cost of revenue	11,879,224	13,539,219	18,816,509	40,028,300	64,578,784
Gross margin	8,537,419	8,911,065	11,375,413	18,819,373	32,418,417
Selling, general and administrative					
Depreciation	9,001,405	8,567,698	7,993,008	11,067,792	17,917,330
Intangibles amortization	494,586	687,570	670,436	512,076	614,803
Restructuring, severance, and other	15,312,280	1,285,524	610,421	696,420	1,611,082
Impairment charge	766,477	579,427	—	—	—
Income (loss) from operations	26,798,178	—	—	—	—
Interest income	(43,835,507)	(2,209,154)	2,101,548	6,543,085	12,275,202
Interest expense	31,093	17,732	3,286	2,564	15,296
Other income (expense)	(122,395)	(203,569)	(285,938)	(137,278)	(658,597)
Income (loss) before income taxes	(1,608)	(53)	(13,459)	32,586	42,561
(Provision) benefit for income taxes	(43,928,417)	(2,395,044)	1,805,437	6,440,957	11,674,462
Net income (loss)	42,261	—	(755,405)	(2,527,669)	(4,497,710)
Beneficial conversion charge on preferred stock	\$ (43,886,156)	\$ (2,395,044)	\$ 1,050,032	\$ 3,913,288	\$ 7,176,752
Accretion of dividends on preferred stock	—	(1,672,746)	—	—	—
Net income (loss) available to common stockholders	—	(163,013)	(157,632)	—	—
Basic net income (loss) per share available to common stockholders	\$ (7.01)	\$ (0.46)	\$ 0.08	\$ 0.22	\$ 0.33
Diluted net income (loss) per share available to common stockholders	\$ (7.01)	\$ (0.46)	\$ 0.07	\$ 0.19	\$ 0.28
Shares used in computing basic net income (loss) per share	6,261,053	9,173,657	11,364,203	17,648,575	22,005,154
Shares used in computing diluted net income (loss) per share	6,261,053	9,173,657	15,306,151	20,680,507	25,242,496

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

	As of December 31,				
	2001	2002	2003	2004	2005
Balance Sheet Data:					
Cash and cash equivalents	\$ 1,412,238	\$ 1,525,002	\$ 1,989,395	\$ 3,905,460	\$ 5,096,409
Working capital	\$ 2,494,191	\$ 1,854,276	\$ 4,013,373	\$ 9,233,577	\$ 17,078,086
Property and equipment, net	\$ 533,948	\$ 1,211,018	\$ 699,145	\$ 805,831	\$ 960,136
Intangible assets, net	\$ 3,550,100	\$ 12,380,039	\$ 11,693,834	\$ 37,339,891	\$ 52,031,825
Total assets	\$ 9,117,695	\$ 19,593,103	\$ 20,259,983	\$ 62,582,365	\$ 84,934,901
Current portion of long term debt and line of credit	\$ 703,144	\$ 1,025,488	\$ 366,920	\$ 1,379,201	\$ 1,581,361
Long-term debt and line of credit, less current portion	\$ 3,667	\$ 745,318	\$ 436,258	\$ 2,902,306	\$ 5,338,501
Total stockholders' equity	\$ 6,836,301	\$ 14,521,483	\$ 16,016,038	\$ 44,622,367	\$ 65,910,616

Item 7. 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 annual report and in the documents that we incorporate by reference into this annual report. This annual report 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 throughout the 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 9.2% of our services revenue for the year ended December 31, 2005. 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 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. We also recognize a small portion software revenue from the sale of internally developed software.

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. Over the past three years, 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, costs to comply with the Sarbanes-Oxley Act of 2002, professional fees for external auditing services, 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 a result of vacation and holidays, 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 build a leading independent information technology consulting firm in the United States through, among other things, expanding our relationships with existing and new clients, leveraging our operations in the central United States to expand nationally and continuing to make disciplined acquisitions. We believe the United States represents an attractive market for growth, both organically and through acquisitions. As demand for our services grows, we believe we will attempt to increase the number of professionals in our 12 central United States and Canada offices and to add new offices throughout the United States, both organically and through acquisitions, 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, we have consummated five acquisitions since January 1, 2004: Genisys Consulting, Inc. on April 2, 2004; Meritage Technologies, Inc. on June 18, 2004; ZettaWorks Inc. on December 20, 2004; iPath Solutions, Ltd. on June 10, 2005 and Vivare, Inc. on September 2, 2005.

Results of Operations

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

Revenue:	2003	2004	2005
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Services revenue	86.6%	76.7%	89.9%
Software revenue	13.4	23.3	10.1
Reimbursed expenses	6.6	4.2	4.2
Total revenue	106.6	104.2	104.2
Cost of revenue (exclusive of depreciation shown separately below):			
Project personnel costs	47.4	46.1	54.9
Software costs	10.9	20.1	8.3
Reimbursable expenses	6.6	4.2	4.2
Other project related expenses	1.5	0.5	2.0
Total cost of revenue	66.4	70.9	69.4
Services gross margin	43.5	39.2	36.7
Software gross margin	18.6	13.9	17.7
Total gross margin	40.2	33.3	34.8
Selling, general and administrative	28.2	19.6	19.2
Depreciation and amortization	4.5	2.1	2.4
Income from operations	7.5	11.6	13.2
Interest expense, net	(1.0)	(0.2)	(0.7)
Income before income taxes	6.5	11.4	12.5
Provision for income taxes	2.7	4.5	4.8
Net income	3.8%	6.9%	7.7%

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Revenue. Total revenue increased 65% to \$97.0 million for the year ended December 31, 2005 from \$58.8 million for the year ended December 31, 2004. Services revenue increased 93% to \$83.7 million in 2005 from \$43.3 million in 2004. These increases were attributable to increased demand for the Company's services and to the acquisitions of iPath and Vivare in 2005 and the full year impact of the acquisitions of Genisys, Meritage and Zettaworks in 2004. The following table summarizes the announced approximate annual revenue run-rates of these acquired businesses at the date of each acquisition. These annual revenue run-rates are defined as the acquired company's most recent monthly or quarterly realized revenue projected to a full one year total.

	Acquisition Date	Approximate Annual Revenue Run-Rate at Acquisition Date
Genisys	4/2/04	\$10 million
Meritage	6/18/04	\$12 million
Zettaworks	12/20/04	\$16 million
iPath	6/10/05	\$8 million
Vivare	9/2/05	\$10 million

Additionally, the increase in services revenue resulted from increases in average project size and quantity of projects. The average utilization rate of our professionals, excluding subcontractors, remained relatively stable at 83% for the year ended December 31, 2005. For the years ended December 31, 2005 and 2004, 9% and 17%, respectively, of our revenue was derived from sales to IBM. While the dollar amount of revenue from IBM has remained relatively

constant over the past two years, the percentage of total revenue from IBM has decreased as a result of the Company's growth and corresponding customer diversification. Software revenue decreased 29% to \$9.4 million in 2005 from \$13.2 million in 2004 due to the fact that the spike in low gross margin sales during the fourth quarter of 2004 did not repeat in the fourth quarter of 2005. This software revenue was all from the sale of third party software except for approximately \$282,000 from the sale of internally developed software recognized in 2005. Reimbursable expenses increased 65% to \$3.9 million in 2005 from \$2.3 million in 2004.

Cost of Revenue. Cost of revenue increased 61% to \$64.6 million for the year ended December 31, 2005 from \$40.0 million for the year ended December 31, 2004. The increase in cost of revenue is attributable to an increase in the number of professionals due to hiring and the acquisitions of ZettaWorks, iPath, and Vivare. The average number of professionals performing services, including subcontractors, increased to 431 for the year ended December 31, 2005 from 220 for the year ended December 31, 2004. In addition, the Company changed its internal policy for the carry-over of billable employee's accrued vacation hours which we had allowed as of December 31, 2004, but discontinued this policy and allowed no more vacation hour carry-overs as of December 31, 2005. As a result, the Company had approximately \$237,000 of billable employee's accrued vacation expense as of December 31, 2004 which was forfeited during 2005. Costs associated with software sales decreased 32% to \$7.7 million in 2005 from \$11.3 million in 2004 in connection with the decreased software revenue in 2005 compared to 2004.

Gross Margin. Gross margin increased 72% to \$32.4 million for the year ended December 31, 2005 from \$18.8 million for the year ended December 31, 2004. Gross margin as a percentage of services and software revenue, excluding reimbursed expenses, increased slightly to 34.8% in 2005 from 33.3% in 2004. The increase in gross margin as a percentage of services and software revenue is due to a mix of improved software margins off-set by lower services margins. Services gross margin decreased slightly to 36.7% in 2005 from 39.2% in 2004 primarily due to lower gross margins on consulting services contracts acquired in the acquisitions of ZettaWorks and iPath. These businesses are national practices rather than local practices and, as a result, they incur a greater amount of unreimbursed travel expenses for delivery of services outside of their local geographic market. Unreimbursed expenses negatively impact our services gross margins. Services gross margins have also been impacted by the acquisition of Vivare which has slightly lower services gross margins than our historical average. Software gross margin increased to 17.7% in 2005 from 13.9% in 2004 primarily as a result of fluctuations in selling prices to customers based on fluctuations in vendor pricing based on market conditions at the time of the sales and from the sale of internally developed software representing software revenue of approximately \$282,000 for which there was no associated cost of revenue.

Selling, General and Administrative. Selling, general and administrative expenses increased 62% to \$17.9 million for the year ended December 31, 2005 from \$11.1 million for the year ended December 31, 2004 due primarily to increases in the cost of compliance with the Sarbanes-Oxley Act of 2002, professional service fees associated with external audits, and additions of sales personnel, management personnel, support personnel and facilities related to the acquisitions of iPath and Vivare in 2005 and the full year impact of the acquisitions of Genisys, Meritage and Zettaworks in 2004. However, selling, general and administrative expenses as a percentage of services revenue, excluding reimbursed expenses, decreased to 21.4% for the year ended December 31, 2005 from 25.5% for the year ended December 31, 2004. The decrease in selling, general and administrative expenses as a percentage of services revenue is the result of operational efficiencies and economies of scale as the Company has grown. However, these cost efficiencies have been off-set by the cost of compliance with the Sarbanes-Oxley Act of 2002 and regular external audit costs which resulted in total costs to the Company during 2005 of approximately \$837,000 compared to approximately \$145,000 in 2004. In addition, the Company changed its internal policy for the carry-over of selling, general and administrative employee's accrued vacation hours which we had allowed as of December 31, 2004, but discontinued this policy and allowed no more vacation hour carry-overs as of December 31, 2005. As a result, the Company had approximately \$48,000 of selling, general and administrative employee's accrued vacation expense as of December 31, 2004 which was forfeited during 2005. Also, during 2005, the Company reduced its allowance for doubtful accounts by approximately \$104,000 as a result of improved collections on accounts receivable. Finally, during 2005, the Company realized approximately \$300,000 in reduced organizational meeting expenses as compared to 2004.

Depreciation. Depreciation expense increased 20% to approximately \$615,000 during 2005 from approximately \$512,000 during 2004. The increase is due to a general increase in purchases of fixed assets to accommodate growth.

Intangibles Amortization. Intangibles amortization expenses, arising from acquisitions, increased 131% to approximately \$1.6 million for the year ended December 31, 2005 from approximately \$0.7 million for the year ended December 31, 2004. The increase in amortization expense reflects the acquisition of intangibles acquired from Zettaworks, iPath, and Vivare and full year amortization of intangible assets acquired for Genisys and Meritage.

Interest Expense. Interest expense increased 380% to approximately \$659,000 for the year ended December 31, 2005 compared to approximately \$137,000 during the year ended December 31, 2004. This increase in interest expense is due to 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, and on draws on the accounts receivable line of credit in connection with the acquisitions of iPath and Vivare. As of December 31, 2005, there was approximately \$2.7 million outstanding on the acquisition line of credit and approximately \$4.0 million outstanding on the accounts receivable line of credit. During 2005, we drew down \$12 million on the accounts

receivable line of credit and repaid \$8 million.

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 effective tax rate decreased slightly to 38.5% for the year ended December 31, 2005 from 39.2% for the year ended December 31, 2004 as a result of a decrease in certain non-deductible expenses. We had deferred tax assets resulting from net operating and capital losses of acquired companies amounting to approximately \$2.8 million for which we had a valuation allowance of approximately \$2.3 million. We had additional deferred tax assets of approximately \$0.4 million from temporary differences between book and tax valuations. These combined deferred tax assets of \$0.9 million were off-set by deferred tax liabilities of \$0.7 million related to identifiable intangibles, goodwill, 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 and capital 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, 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, excluding reimbursed expenses, increased 77% to \$43.3 million in 2004 from \$24.5 million in 2003. This increase was largely attributable to the acquisitions of Genisys, Meritage and ZettaWorks which combined accounted for approximately \$14.7 million of services revenue for the year ended December 31, 2004. Additionally, the increase in services revenue resulted from increases in average project size and quantity of projects. 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. Reimbursable 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 the 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 33.3% in 2004 from 40.2% in 2003. The decrease in gross margin as a percentage of services and software revenue, excluding reimbursed expenses, 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, excluding reimbursed expenses, 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 fluctuations in selling prices to customers based on competitive pressures and fluctuations in vendor pricing based on market conditions at the time of the sales.

Selling, General and Administrative. Selling, general and administrative expenses increased 38% 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 services revenue, excluding reimbursed expenses, decreased to 25.5% for the year ended December 31, 2004 from 32.6% for the year ended December 31, 2003. The decrease in selling, general and administrative expenses as a percentage of services revenue is the result of operational efficiencies and economies of scale as the Company has grown.

Depreciation. Depreciation expense decreased 24% to approximately \$512,000 during 2004 from approximately \$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 expenses, 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 acquired from Genisys and Meritage, partially off-set by the end of the assigned three-year useful life relating to intangibles acquired in the acquisitions of Compete, Inc. in May 2000 and Core Objective, Inc. in November 2000.

Interest Expense. Interest expense decreased 52% to approximately \$137,000 for the year ended December 31, 2004 compared to approximately \$286,000 during the year ended December 31, 2003. This decrease in interest expense is due to decreases in the principal balances on the notes payable issued in our acquisition of Javelin Solutions, Inc. in 2002 and our accounts receivable line of credit since 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 accrued a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate decreased to 39.2% for the year ended December 31, 2004 from 41.8% for the year ended December 31, 2003 as a result of a decrease in certain non-deductible expenses. We had deferred tax assets resulting from net operating losses of acquired companies amounting to approximately \$3.3 million for which we had a valuation allowance of \$3.0 million. We had additional deferred tax assets of approximately \$0.5 million from temporary differences between book and tax valuations. These combined deferred tax assets of \$0.8 million were completely off-set by deferred tax liabilities of \$0.8 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.

Liquidity And Capital Resources

Selected measures of liquidity and capital resources are as follows: (in millions)

	As of December 31			
	2004		2005	
Cash and cash equivalents	\$	3.9	\$	5.1
Working capital	\$	9.2	\$	17.1

Net Cash Provided By Operating Activities

We expect to fund our operations during 2006 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, 2005 increased 90% to \$7.7 million from \$4.0 million for the year ended December 31, 2004. This net cash generated by operations for the years ended December 31, 2005 and 2004 included tax benefits from stock option exercises in the amounts of approximately \$2.3 million and approximately \$342,000, respectively, which will be reported as cash provided by financing activities in future periods as a result of the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment* on January 1, 2006. 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 \$23.3 million at December 31, 2005, representing approximately 69 days of sales outstanding, excluding end-of-quarter software sales, compared to \$20.0 million, or 65 days at December 31, 2004.

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, 2005, approximately 9% of our accounts receivable was due from IBM.

Net Cash Used in Investing Activities

For the year ended December 31, 2005, we used approximately \$9.7 million in cash, net of cash acquired, to acquire iPath and Vivare. In addition, during 2005 we used approximately \$691,000 to purchase equipment fixed assets and used approximately \$599,000 for software capitalized for internal use to expand our information management systems. For the year ended December 31, 2004, we used approximately \$10.7 million in cash, net of cash acquired, to acquire Genisys, Meritage and ZettaWorks and used approximately \$430,000 to purchase equipment fixed assets.

Net Cash From Financing Activities

Our financing activities consisted primarily of draws and repayments on credit facilities during 2005. We had to raise additional funding during 2005 to finance the acquisitions consummated during the year. During 2005, we used approximately \$942,000 of offering costs in connection with a shelf registration statement to allow for offers and sales of common stock from time to time as market conditions permit. During 2005, there was approximately \$2.7 million and \$157,000 of cash provided by the exercise of stock options and warrants, respectively.

At December 31, 2005, we had \$5.1 million in cash and cash equivalents. We believe that the current available funds, amounts available on our bank credit facilities, net proceeds from the shelf registration, and cash flows generated from operations will be sufficient to meet our working capital and capital requirements to finance acquisitions for the next twelve months.

Availability of Funds from Bank Line of Credit Facilities

We have a \$28.5 million credit facility with Silicon Valley Bank and Key Bank comprising a \$15.0 million accounts receivable line of credit and a \$13.5 million acquisition line of credit. Borrowings under the accounts receivable line of credit bear interest at the bank's prime rate plus 1.25%, or 8.5%, as of December 31, 2005. As of December 31, 2005, there was \$4.0 million outstanding under the accounts receivable line of credit and approximately \$11.0 million of available borrowing capacity, excluding approximately \$450,000 reserved for two outstanding letters of credit to secure facility leases. This accounts receivable line of credit matures in June 2008.

Our \$13.5 million term acquisition line of credit with Silicon Valley Bank and Key Bank provides an additional source of financing for certain qualified acquisitions. As of December 31, 2005 the balance outstanding under this acquisition line of credit was approximately \$2.7 million. Borrowings under this acquisition line of credit bear interest equal to the average four year U.S. Treasury note yield plus 3.25%—the initial \$2.5 million draw, of which \$1.5 million remains outstanding, bears interest of 7.11% at December 31, 2005 and the subsequent \$1.5 million draw, of which \$1.2 million remains outstanding, bears interest of 6.90% at December 31, 2005. Each are repayable in thirty-six equal monthly installments, after the first three months which require payment of accrued interest only, beginning October 21, 2004 and April 20, 2005, respectively. We currently have \$10 million of available borrowing capacity under this acquisition line of credit.

As of December 31, 2005, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months. Substantially all of our assets are pledged to secure the credit facility.

We believe that the current available funds, access to capital from this new debt facility, possible capital from registered placements of equity through the shelf registration, and cash flows generated from operations will be sufficient to meet our working capital requirements and meet our capital needs to finance acquisitions for the next twelve months.

Contractual Obligations

In connection with certain of our acquisitions, we were required to establish various letters of credit totaling \$450,000 with Silicon Valley Bank to serve as collateral to secure facility leases. The letters of credit with Silicon Valley Bank reduce the borrowings available under our accounts receivable line of credit. One letter of credit of \$200,000 will remain in effect through October 2009, and the other letter of credit of \$250,000 will remain in effect through June 2007.

In connection with the acquisition of Javelin, we issued \$1.5 million in notes, \$1.0 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 was payable in eight equal quarterly installments that commenced in July 2002. We paid \$125,000 in 2002, \$500,000 in 2003, \$375,000 in 2004, and \$250,000 in 2005. Accordingly, the final annual installment of \$250,000 remains to be paid in April 2006.

We have incurred commitments to make future payments under contracts such as leases and certain long-term liabilities. Maturities, including estimated interest, under these contracts are set forth in the following table as of December 31, 2005: (in thousands)

Total	Payments Due by Period			More Than 5
	Less Than 1 Year	1-3 Years	3-5 Years	

Contractual Obligations	Years									
Long-term debt obligations, including estimated interest	\$	3,122	\$	1,733	\$	1,389	\$	—	\$	—
Operating lease obligations		3,922		1,203		1,662		983		74
Total	\$	7,044	\$	2,936	\$	3,051	\$	983	\$	74

Subsequent to December 31, 2005, we amended an existing operating lease for one of our facilities increasing the future minimum commitments under the lease by approximately \$566,000 and extending the lease term from an expiration date of April 2007 to April 2012. Also with this lease amendment, the monthly rental payments were reduced and the requirement for a \$250,000 letter of credit has been removed.

Additionally, subsequent to December 31, 2005, we entered into a new operating lease for one of our facilities creating additional future minimum commitments under a lease agreement of approximately \$434,000 with a lease term through September 2011.

Additionally, subsequent to December 31, 2005, we amended an existing operating lease for one of our facilities increasing the future minimum commitments under the lease by approximately \$66,000 and extending the lease term from an expiration date of May 2006 to May 2008.

With these events subsequent to December 31, 2005, maturities under these operating lease contracts are set forth in the following table: (in thousands)

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations	\$ 5,027	\$ 1,064	\$ 2,091	\$ 1,493	\$ 379

If our capital 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, although there are some exceptions. 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 also recognize revenue in accordance with Statement of Position ("SOP") 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9, and Securities and Exchange Commission Staff Accounting Bulletin ("SAB") 101, *Revenue Recognition in Financial Statements* as revised by SAB 104. Revenue is recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) acceptance has occurred, and (4) collectibility is deemed probable. We determine the fair value of each element in the arrangement based on vendor-specific objective evidence ("VSOE") of fair value. VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. We follow very specific and detailed guidelines, discussed above, in determining revenues; however, certain judgments and estimates are made and used to determine revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue recognized for any period if different conditions were to prevail. For example, in

determining whether collection is probable, we assess our customers' ability and intent to pay. Our actual experience with respect to collections could differ from our initial assessment if, for instance, unforeseen declines in the overall economy occur and negatively impact our customers' financial condition.

Revenue from internally developed software which is allocated to maintenance and support is recognized ratably over the maintenance term (typically one year).

Revenue allocated to training and consulting service elements is recognized as the services are performed. Our consulting services are not essential to the functionality of our products as such services are available from other vendors.

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, Other Intangible Assets and Impairment of Long-Lived Assets

We adopted Statement of Financial Accounting Standards 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 businesses, market conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill is impaired. Any resulting impairment loss could have an adverse impact on our results of operations by decreasing net income.

We evaluate 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 we adopted as of January 1, 2002. Long-lived assets held and used 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, we compare 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, 2005.

Accounting for Stock-Based Compensation

We apply Accounting Principles Board (“APB”) Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for our stock option plans. 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, *Accounting for Stock-Based Compensation*, our net income and earnings per share would have been reduced to pro forma amounts indicated in the notes to our financial statements.

In October 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R, *Share-Based Payment*. 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. We have evaluated the requirements under SFAS No. 123R and we expect the adoption to have a significant adverse impact on our consolidated statements of income and net income per share. See further explanation concerning this new standard in Recent Accounting Pronouncements below.

Income Taxes

Management believes that our net deferred tax asset should continue to be reduced by a partial 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 and capital 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

In December 2004, the Financial Accounting Standards Board (“FASB”) issued Statement No. 123 (revised 2004), *Share-Based Payment* (“Statement 123(R)”), which is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation* (“Statement 123”). Statement 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in our income statement based on their fair values. This non-cash stock compensation is related to past grants which are not fully vested as of December 31, 2005 and all future grants. Following January 1, 2006, pro forma disclosure is no longer an alternative.

Statement 123(R) must be adopted no later than January 1, 2006. The adoption of this Statement 123(R) will have a significant adverse impact on our consolidated statements of income and net income per share in future periods.

Statement 123(R) permits public companies to adopt its requirements using one of two methods:

§A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.

§A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures based upon either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We will use the modified prospective method beginning with our interim report on Form 10-Q for the period ending March 31, 2006.

As permitted by Statement 123, we currently account for share-based payments to employees using Opinion 25’s intrinsic value method and, as such, generally recognize no compensation cost for employee stock options. Accordingly, the adoption of Statement 123(R)’s fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position. Had we adopted Statement 123(R) in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro forma net income (loss) and net income (loss) per share in Notes 2 to our consolidated financial statements. The impact of adoption of Statement 123(R) cannot be predicted at this time because it will depend, in part, on levels of share-based payments granted in the future. However, our current best estimate for 2006 stock-based compensation expense is approximately \$3 million before tax benefits. Statement 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption.

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections — a replacement of APB Opinion No. 20 and FASB Statement No. 3* (“SFAS 154”). SFAS 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3 *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires restatement of prior period financial statements, unless impracticable, for changes in accounting principle. The retroactive application of a change in accounting principle should be limited to the direct effect of the change. Changes in depreciation, amortization or depletion methods should be accounted for as a change in accounting estimate. Corrections of accounting errors will be accounted for under the guidance contained in APB Opinion No. 20. The

effective date of this new pronouncement is for fiscal years beginning after December 15, 2005 and prospective application is required. We do not expect the adoption of SFAS 154 to have a material impact on our consolidated financial statements.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risks related to changes in foreign currency exchange rates and interest rates. We believe our exposure to market risks is immaterial.

Exchange Rate Sensitivity

During 2005, approximately \$1.3 million of our total revenue was attributable to our Canadian operations. Our exposure to changes in foreign currency rates primarily arises from short-term intercompany transactions with our Canadian subsidiary and from client receivables in the Canadian dollar. Our Canadian subsidiary incurs a significant portion of its expenses in Canadian dollars as well, which helps minimize our risk of exchange rate fluctuations. Based on the amount of revenue attributed to Canada during 2005, this exchange rate risk will not have a material impact on our financial position or results of operations.

Interest Rate Sensitivity

We have a \$28.5 million credit facility with Silicon Valley Bank and Key Bank comprising a \$15.0 million accounts receivable line of credit and a \$13.5 million acquisition term line of credit. Borrowings under the accounts receivable line of credit bear interest at the bank's prime rate plus 1.25%, or 8.5%, as of December 31, 2005. As of December 31, 2005, there was \$4.0 million outstanding under the accounts receivable line of credit and approximately \$11.0 million of available borrowing capacity, excluding approximately \$450,000 reserved for two outstanding letters of credit to secure facility leases. Our interest expense will fluctuate as the interest rate for this accounts receivable line of credit floats based on the bank's prime rate. Based on the \$4.0 million outstanding under the accounts receivable line of credit as of December 31, 2005, this interest rate risk will not have a material impact on our financial position or results of operations.

We had unrestricted cash and cash equivalents totaling \$5.1 million and \$3.9 million at December 31, 2005 and December 31, 2004, respectively. These amounts were invested primarily in money market funds. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income.

Item 8. Financial Statements and Supplementary Data.

The financial statements and supplementary data required by this item are set forth in Item 15(a)(1) and begin at page F-1 of this report. The table on pages F-28 to F-29 of the "Consolidated Financial Statements" section sets forth certain unaudited consolidated statements of income data for each of the last consecutive eight quarters.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Disclosure Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer of the Company, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal year covered by this Annual Report on Form 10-K. As described below under Management's Annual Report on Internal Control Over Financial Reporting, the Company has identified significant deficiencies related to inadequate staffing levels which aggregated to a material weakness in the Company's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)).

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects our ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of our annual or interim financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2005, certain significant deficiencies were identified, principally caused by inadequate staffing levels, as described below:

- § Lack of segregation of duties, with certain accounting personnel being assigned inappropriate access to the automated general ledger system, such as in our procure to pay and order to cash processes;
- § The design of our internal control structure emphasized significant reliance on manual detect controls, primarily performed by a single individual, and limited reliance on application and prevent controls;
- § Lack of detail review of key financial spreadsheets, including spreadsheets supporting journal entries affecting revenue such as unbilled revenue and deferred revenue.

In our assessment, we determined that the aggregation of the significant deficiencies described above constitutes a material weakness as of December 31, 2005 which results in a more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Based on this material weakness and the criteria set forth by the COSO Framework, we have concluded that our internal control over financial reporting at December 31, 2005 was not effective.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

During 2005, the Company implemented significant new internal information technology systems and applications including a new general ledger system and a new time and expense reporting system which can be utilized to deliver more automated information technology application controls and reduce the reliance on financial accounting personnel and the need for segregation of duties. In addition, given our significant growth, we understand that our financial accounting group must expand and that we must automate many of our information technology application controls in order to meet the internal control requirements of our rapidly growing organization. By hiring more financial accounting personnel and by leveraging the capabilities of our new internal information systems and accounting systems to automate controls, we believe will remedy the material weakness described in Management's Report on Internal Control Over Financial Reporting. However, we do not believe that all of these changes will be in effect at the end of the first quarter of 2006, and therefore, we will likely report that a material weakness in internal control continues to exist in our Quarterly Report on Form 10-Q for the first quarter of fiscal 2006.

Changes in Internal Controls

There have been no changes in our internal control over financial reporting or in factors affecting internal control over financial reporting during the fourth quarter ended December 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Perficient, Inc.
Austin, Texas

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Perficient, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of a material weakness identified in management's assessment, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Perficient, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The following material weakness, which encompasses an aggregation of significant deficiencies, has been identified and included in management's assessment as of December 31, 2005:

The Company did not maintain a sufficient number of personnel to fill key accounting functions which resulted in the existing accounting staff to be assigned to perform incompatible duties, such as in the procure to pay and order to cash processes, and some personnel having inappropriate access to the automated general ledger system. Further, the lack of adequate staff levels contributed to the Company placing limited reliance on prevent and application controls and an over reliance on detect controls, primarily performed by one individual. In addition, this weakness contributed to the lack of detail reviews of key spreadsheet controls, such as in the unbilled revenue and deferred revenue accounts. This situation could result in accounting personnel effecting unauthorized transactions or overlooking valid transactions to be recorded or accounting errors to go undetected. Consequently, a material misstatement of significant accounts and disclosures could occur resulting in a material misstatement to the Company's interim and annual consolidated financial statements.

This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the financial statements as of and for the year ended December 31, 2005, and this report does not affect our report dated March 30, 2006 on those financial statements.

In our opinion, management's assessment that Perficient, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Perficient, Inc. has not maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Perficient, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2005, of Perficient, Inc. and our report dated March 30, 2006, expressed an unqualified opinion.

BDO Seidman, LLP

Houston, Texas
March 30, 2006

Item 9B. Other Information.

On March 28, 2006, we entered into a new three-year employment agreement with John T. McDonald, our Chief Executive Officer, effective as of January 1, 2006, which will expire December 31, 2008. See further discussion at Item 11.

PART III**Item 10. Directors and Executive Officers of the Registrant.**

Our executive officers and directors, including their ages as of the date of this filing are as follows:

Name	Age	Position
John T. McDonald	42	Chairman of the Board and Chief Executive Officer
Jeffrey S. Davis	41	President and Chief Operating Officer
Michael D. Hill	37	Chief Financial Officer
Richard T. Kalbfleish	50	Controller and VP of Finance and Administration
Ralph C. Derrickson	47	Director
Max D. Hopper	71	Director
Kenneth R. Johnsen	52	Director
David S. Lundeen	44	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 CreditMindors, 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, Tx. 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.

Richard T. Kalbfleish joined us as Controller in November 2004 and became Vice President of Finance and Administration and Assistant Treasurer in May 2005. Prior to joining Perficient, Mr. Kalbfleish served as Vice President of Finance and Administration with IntelliMark/ Technisource, a national IT staffing company, for 11 years. Mr. Kalbfleish has over 21 years of experience at the Controller level and above in a number of service industries with an emphasis on acquisition integration and accounting, human resources and administrative support. Mr. Kalbfleish has a B.S.B.A. in Accountancy from the University of Missouri at Columbia.

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, and several other private corporations.

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.

Audit Committee of the Board of Directors

The board of directors has created an audit committee. Each committee member is independent as defined by NASDAQ National Market listing standards.

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 Ralph C. Derrickson. 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 board of directors has affirmatively determined that Mr. Lundeen qualified as an independent director as defined by the NASDAQ National Market listing standards.

Codes of Conduct and Ethics

The Company has adopted a Corporate Code of Business Conduct and Ethics that applies to all employees and directors of the Company while acting on the Company's behalf and has adopted a Financial Code of Ethics applicable to the chief executive officer, the chief financial officer and controller or principal accounting officer.

Section 16 Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires executive officers and directors, and persons who beneficially own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission and the NASDAQ National Market. Based solely on a review of the copies of reports furnished to us and written representations from our executive officers, directors and persons who beneficially own more than ten percent of our equity securities, we believe that, during the preceding year, all filing requirements applicable to our officers, directors and ten percent beneficial owners under Section 16(a) were satisfied except that the following individuals failed to timely file an Initial Statement of Beneficial Ownership on Form 3:

Richard T. Kalbfleish	VP of Finance and Administration
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and, except that the following individuals failed to timely file a Statement of Change in Beneficial Ownership on Form 4:

John T. McDonald	Chairman of the Board and Chief Executive Officer
David S. Lundeen	Director
Robert Pickering, Jr.	Former Director
Max D. Hopper	Director

Item 11. Executive Compensation.

The following table sets forth information concerning the annual and long-term compensation earned by the individuals who served as our Chief Executive Officer and all other executive officers during fiscal year 2005 for services rendered in all capacities during the years presented. Michael D. Hill joined us in February 2004 as our Chief Financial Officer. Richard T. Kalbfleish was promoted to VP of Finance and Administration in March 2005.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>			<u>Long Term Compensation Awards</u>			<u>All Other Compensation \$(4)</u>
		<u>Salary(\$)</u>	<u>Bonus(\$)</u>	<u>Other Annual Compensation\$(1)</u>	<u>Restricted Stock Awards\$(2)</u>	<u>Securities Underlying Options(#)(3)</u>		
John T. McDonald <i>Chief Executive Officer</i>	2005	\$ 250,000	\$ 338,359	\$ 16,273	—	—	—	\$ 420
	2004	\$ 237,500	\$ 355,408	\$ 12,959	1,104,250	400,000	—	\$ 420

and 2003 \$ 225,000 \$ 200,048 \$