

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

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

Registration No. 333-123177

---

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

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

**Perficient, Inc.**

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

**1120 South Capital of Texas Highway**

**Building 3, Suite 220**

**Austin, Texas 78746**

**(512) 531-6000**

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

**Delaware**

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

**74-2853258**

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

**John T. McDonald**

**1120 South Capital of Texas Highway**

**Building 3, Suite 220**

**Austin, Texas 78746**

**(512) 531-6000**

**(512) 531-6011 (Fax)**

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

**Copies to:**

**J. Nixon Fox III**

**Vinson & Elkins LLP**

**The Terrace 7**

**2801 Via Fortuna, Suite 100**

**Austin, Texas 78746-7568**

**(512) 542-8400**

**(512) 542-8612 (Fax)**

**P. Kevin Trautner**

**King & Spalding LLP**

**1100 Louisiana Street**

**Suite 4000**

**Houston, Texas 77002-5213**

**(713) 751-3273**

**(713) 751-3290 (Fax)**

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

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

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

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

registration statement for the same offering.

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

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

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

---

---

---

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

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

**PRELIMINARY PROSPECTUS**

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

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

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

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

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

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

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

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

**Friedman Billings Ramsey**

**Stifel, Nicolaus & Company  
Incorporated**

**Roth Capital Partners**

**Gilford Securities Incorporated**

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

**TABLE OF CONTENTS**

	<b>Page</b>
Prospectus Summary	1
Summary Consolidated Financial Data	4
Risk Factors	7
Special Note Regarding Forward-Looking Statements	14
Use of Proceeds	15
Price Range of Common Stock and Dividend Policy	16
Capitalization	17
Dilution	18
Selected Consolidated Financial Data	19
Management's Discussion and Analysis of Financial Condition and Results of Operations	21
Business	31
Management	43
Certain Relationships and Related Transactions	47
Principal and Selling Stockholders	48
Description of Capital Stock	52
Underwriting	55
Legal Matters	58
Experts	58
Where You Can Find More Information	58
Incorporation of Certain Information by Reference	59
Index to Financial Statements	F-1

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

## PROSPECTUS SUMMARY

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

### **Perficient, Inc.**

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

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

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

Our competitive strengths include:

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

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

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

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

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

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

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

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

To achieve our goal, our strategy is to:

grow our relationships with existing and new clients;

continue making disciplined acquisitions;

expand throughout the central United States;

enhance brand visibility;

invest in our people and culture;

leverage existing, and pursue new, strategic alliances; and

use offshore services when appropriate to deliver our solutions.

### **General Information**

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

**The Offering**

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

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

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

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

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

Nasdaq National Market Symbol PRFT

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

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

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

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

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

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

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

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



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

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

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

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

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

## Year Ended December 31,

## Historical

## Pro Forma

2002

2003

2004

2004

(Unaudited)

**Consolidated Statements of Operations Data:**

## Revenue

Services	\$ 20,391,587	\$ 24,534,617	\$ 43,330,757	\$ 69,578,934
Software	402,889	3,786,864	13,169,693	13,169,693
Reimbursable expenses	1,655,808	1,870,441	2,347,223	2,846,066

Total revenue	22,450,284	30,191,922	58,847,673	85,594,693
---------------	------------	------------	------------	------------

## Cost of revenue(1)

Project personnel costs	11,210,272	13,411,762	26,072,516	43,555,403
Software costs	343,039	3,080,894	11,341,145	11,341,145
Reimbursable expenses	1,655,808	1,870,441	2,347,223	2,834,788
Other project related expenses	330,100	453,412	267,416	1,810,857

Total cost of revenue	13,539,219	18,816,509	40,028,300	59,542,193
-----------------------	------------	------------	------------	------------

Gross margin	8,911,065	11,375,413	18,819,373	26,052,500
--------------	-----------	------------	------------	------------

Selling, general and administrative	8,567,698	7,993,008	11,067,792	18,320,276
-------------------------------------	-----------	-----------	------------	------------

Depreciation	687,570	670,436	512,076	709,221
--------------	---------	---------	---------	---------

Amortization of intangibles	1,285,524	610,421	696,420	1,434,962
-----------------------------	-----------	---------	---------	-----------

Restructuring, severance and other	579,427			
------------------------------------	---------	--	--	--

Income (loss) from operations	(2,209,154)	2,101,548	6,543,085	5,588,041
-------------------------------	-------------	-----------	-----------	-----------

Interest income	17,732	3,286	2,564	
-----------------	--------	-------	-------	--

Interest expense	(203,569)	(285,938)	(137,278)	(312,484)
------------------	-----------	-----------	-----------	-----------

Other	(53)	(13,459)	32,586	37,127
-------	------	----------	--------	--------

Income (loss) before income taxes	(2,395,044)	1,805,437	6,440,957	5,312,684
-----------------------------------	-------------	-----------	-----------	-----------

(Provision) benefit for income taxes		(755,405)	(2,527,669)	(2,087,643)
--------------------------------------	--	-----------	-------------	-------------

Net income (loss)	\$ (2,395,044)	\$ 1,050,032	\$ 3,913,288	\$ 3,225,041
-------------------	----------------	--------------	--------------	--------------

Beneficial conversion charge on preferred stock	(1,672,746)			
---	-------------	--	--	--

Accretion of dividends on preferred stock	(163,013)	(157,632)		
---	-----------	-----------	--	--

Net income (loss) available to common stockholders	\$ (4,230,803)	\$ 892,400	\$ 3,913,288	\$ 3,225,041
--	----------------	------------	--------------	--------------

Basic net income (loss) per share(2)	\$ (0.46)	\$ 0.08	\$ 0.22	\$ 0.16
--------------------------------------	-----------	---------	---------	---------

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

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

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

**As of December 31, 2004**

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

## **RISK FACTORS**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

continue to develop our technology expertise;

enhance our current services;

develop new services that meet changing customer needs;

advertise and market our services; and

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

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

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

security;

intellectual property ownership;

privacy;

taxation; and

liability issues.

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

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

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

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

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

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

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

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

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

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



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

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

demand for Internet software and services;

customer budget cycles;

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

pricing changes in our industry;

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

general economic conditions.

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

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

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

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

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

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

customer demand in any given quarter; and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

develop new services; or

respond to competitive pressures.

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

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

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

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

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

### USE OF PROCEEDS

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

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

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

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

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

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

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

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

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

**CAPITALIZATION**

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

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

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

**DILUTION**

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

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

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

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



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

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

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

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

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

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

Edgar Filing: PERFICIENT INC - Form S-3/A

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

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

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

**Historical**

**As of December 31,**

**2000                      2001                      2002                      2003                      2004**

**Balance Sheet Data:**

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

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

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

### **Overview**

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

### *Services Revenue*

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

### *Software Revenue*

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

*Cost of Revenue*

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

*Gross Margins*

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

*Selling, General and Administrative Expenses*

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

*Quarterly Fluctuations*

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

*Plans for Growth & Acquisitions*

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Selected measures of liquidity and capital resources are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

***Contractual Obligations***

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

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

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

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

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

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

#### **Critical Accounting Policies**

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

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

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

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

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

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

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

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

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

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

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

#### **Recent Accounting Pronouncements**

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



## BUSINESS

### Overview

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

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

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

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

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

## Industry Background

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

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

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

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

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

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

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

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

### **Competitive Strengths**

We believe our competitive strengths include:

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

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

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

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

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

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

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

### **Our Solutions**

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

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

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

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

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

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

Our eBusiness integration solutions include the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Our Solutions Methodology**

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

iterative and results oriented;

centered around a flexible and repeatable framework;

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

focused on delivering high value, measurable results; and

grounded by industry leading project management.

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

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

**Our Strategy**

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

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

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

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

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

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

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