



FORM 10KSB

PERFICIENT INC – PRFT

Filed: March 30, 2004 (period: December 31, 2003)

Annual report filed by small businesses

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-KSB

**Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2003
Commission File Number: 1-15169**

PERFICIENT, INC.

(Name of Small Business Issuer in its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

74-2853258
(IRS Employer
Identification No.)

**1120 South Capital of Texas Highway, Bldg. 3, Suite 220
Austin, Texas 78746**

(Address of principal executive offices)

(512) 531-6000

(Issuer's telephone number, including area code)

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

Title of Class
Common Stock, \$.001 par value

Name of each exchange on which registered:
Boston Stock Exchange

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

NONE
(Title of Class)

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

Yes ☒ No ☐

Check if disclosure of delinquent filers in response to Item 405 of Regulations S-B is not contained in this filing, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

State issuer's revenues for its most recent fiscal year: \$30,191,922

State the aggregate market value of the voting and nonvoting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked prices of such common equity as of a specified date within the past 60 days.

\$49,101,598 AS OF MARCH 29, 2004

State the number of shares of common stock outstanding as of March 29, 2004: 15,087,566

Portions of the definitive proxy statement relating to the 2004 Annual Meeting of Stockholders, which will be filed with the commission not later than April 29, 2004 are incorporated by reference in Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format: Yes ☐ No ☒

PERFICIENT, INC.

FORM 10-KSB ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2003

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The statements contained in this annual report on Form 10-KSB that are not purely historical statements are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. These forward-looking statements include, among other things, references to the market potential for Internet implementation, our competitive advantage over systems integrators and technology professionals, potential demand for our services, and the benefits and advantages of our business model and involve substantial risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Please see "Risk Factors," "Special Cautionary Note Regarding Forward-Looking Statements" and the factors and risks discussed in the reports we file from time to time with the Securities and Exchange Commission.

PART I

ITEM 1—DESCRIPTION OF BUSINESS

Overview

We are an eBusiness solutions services provider to large and major midsize companies. We use a solutions delivery approach we call the Enabled Enterprise, that helps clients reach new markets and increase revenues, acquire and strengthen customer relationships, reduce costs and increase productivity and empower employees. Our Enabled Enterprise is an Internet-based infrastructure with integrated business applications that extend enterprise technology assets to customers, suppliers, partners and employees. We market our eBusiness solutions services directly to large and major midsize companies, principally in the Midwestern United States through a seven person direct sales force.

In addition to our direct-to-end customer solutions business, our Advanced Technology Services (ATS) group exclusively serves IBM Corporation and its customers throughout the United States. Our ATS group employs more than 55 employees with experience in a variety of IBM software products, including WebSphere™ middleware and application servers and WebSphere™ portal server. We have a services agreement with IBM under which our ATS group provides deployment, integration and training services to IBM's WebSphere™ customers. Under the agreement with IBM, we are paid for services rendered. Our current agreement with IBM expires in September 2004 and may be cancelled prior to that date upon five days written notice. In 2003, revenue from IBM accounted for approximately 35% of total revenues. Any termination of our relationship with, or significant reduction or modification of the services we perform for, IBM would materially reduce our revenue and net income.

We were incorporated in Texas in September 1997. In May 1999 we reincorporated in Delaware. We employed 147 full-time professionals in 5 offices in the United States and Canada as of March 29, 2004.

Our eBusiness Solutions Services

We help our clients use Internet-based technologies to reach new markets and increase revenues, strengthen customer relationships, reduce operating costs and increase productivity, and empower their workers. We employ a broad-based approach, grounded in a thorough understanding of our clients' overall business strategy and competitive environment. Our services strive to help clients develop new business opportunities by taking advantage of existing distribution channels, customer service networks, and information systems.

For our project engagements, we perform any or all of the following services:

- analyze end-user customer business goals and requirements;
- define the scope of the implementation project;

- design a project plan; and
- custom develop solutions as well as install, configure, and integrate our partners' Internet software products.

Our goal is to reduce significantly the time required for our clients to implement an effective eBusiness solution. This enables our customers to quickly realize the benefits associated with our strategic partners' software products and allows our strategic partners to more rapidly expand their market share.

Our approach includes an integrated set of real-world solutions that leverage Internet technologies to extend our clients' legacy systems to customers, employees, suppliers, and partners through:

- eBusiness infrastructure;
- eCommerce platforms;
- Online customer management (eCRM);
- Supply chain Web-enablement (SCWE); and
- Enterprise portals.

Our target market for eBusiness solutions services is large and major midsize corporations, principally located in the Midwestern United States. We believe that these businesses invest in technology products and related services for four principal reasons:

- to reach new markets and increase revenues;
- to strengthen customer relationships;
- to reduce operating costs and increase productivity; and
- to empower their workers.

In addition, we believe that these companies require, as a predicate to making such investment, a demonstrable positive return-on-investment potential and an eBusiness solutions partner with both proven experience in delivering similar projects and familiarity with the issues and concerns specific to the industry in which they operate.

Accordingly, we focus on a targeted number of industries for which we have developed domain expertise and offer eBusiness solutions services that we believe can generate a meaningful positive return-on-investment for our customers. Our primary eBusiness solutions services offerings are described below:

- *eBusiness Infrastructure.* Middleware and Enterprise Application Integration (EAI) software are two key components to developing enterprise-class, eCommerce platforms for large and mid-size companies. Perficient designs and implements complex website-to-legacy system integrations that significantly reduce round-trip transaction times for enterprise-class websites. This umbrella of technologies is commonly called Web Services. To maximize our value to customers, we have strategic relationships with Web Services firms such as IBM and Microsoft.
- *eCommerce Platforms.* We develop eCommerce applications and further enhance existing sites to introduce new technology. We design systems that manage the "back-end" order fulfillment process to leading ERP systems such as SAP and JD Edwards for business-to-consumer and business-to-business Web sites. We provide commerce site enhancements, including advanced catalog management and search and cross-sell and up-sell capabilities. We offer clients packaged or custom electronic bill presentation and implementation solutions based on an individual company's needs.

- *eCRM.* Customer Relationship Management provides businesses with information on the wants and needs of its customers. We integrate data from disparate information sources to provide continuous, interactive and multi-platform customer interaction and value exchange. We deliver CRM components including: personalization, point of sale, telesales, Web-based selling, data mining, online advertising, call/contact center information and systems integration, field service dispatch, lead tracking, geocoding, and multiple front and back-office applications.
- *Supply Chain Web Enablement.* In the manufacturing and service industries, the implementation of a portal, business hub, Net exchange or extranet system enables established companies to build new business models, alliances, partnerships and other business relationships. Each company and industry has unique design and build requirements to support purchasing, distribution and sales. We help companies develop strategies and build the solutions they need to facilitate the exchange of information and transactions at critical points along the supply-chain.
- *Enterprise Portals.* Communication is the basis of success for any organization. We design, build and deploy "self-service" and collaborative solutions for business-to-employee, business-to-consumer and business-to-business implementations and enable workflow efficiencies by exchanging data and information in a cost-efficient, effective manner. Many organizations implement business-to-employee portals to improve employee communication. We help clients to extend these benefits externally in business-to-consumer and business-to-business portals that provide a secure line of business application integration and personalized buying communities.

Our Strategy

Our objective is to be a leading eBusiness solutions services provider to large and major midsize companies and Internet software vendors. To achieve our goal, our strategy is to:

- target for expansion vital but underserved markets in the Midwestern and Southwestern United States;
- use selective acquisitions to supplement organic growth and achieve critical mass;
- continue to grow our IBM relationship and expand it to include more solutions-oriented services and software sales;
- provide our customers end-to-end solutions that generate a demonstrable positive return on investment;
- continue to invest in the professional development of our consulting staff and provide them with entrepreneurial opportunities within Perficient; and
- retain and strengthen a culture built on teamwork, a passion for technology and client service, and a focus on cost control and the bottom line.

Sales and Marketing

eBusiness Solutions Services. Our business development approach is market-focused with specific and tailored strategies for the industry market segments we serve. We target companies with annual revenues between \$250 million and \$5 billion, specifically focused in financial services (insurance, banking and brokerage), healthcare (pharmacy benefit managers and pharmaceutical manufacturers) and commodity (agribusiness and energy) markets. We also pursue opportunities in other industries where we can leverage our expertise. We utilize a direct sales force that consists of seven consultative sales professionals.

IBM Partnership. Our ATS service engagements are generated through or with IBM. As a result, our principal sales and marketing activity consists of marketing our services in concert with IBM's sales and services organizations. We have a general manager dedicated to coordinating projects and stimulating additional demand from IBM. Early in 2004 we realigned our sales force and sales processes in support of IBM's new organization and solutions-oriented sales process.

We have strategic relationships with eBusiness technology and services providers including IBM, Digex, Tibco, Wily Technology, Bowstreet, Stellent, and Microsoft. These companies are key vendors in middleware and application servers, enterprise application integration, content management, and Web services. We believe these relationships enable us to leverage our core competencies, extend our service offerings, reach new clients and decrease costs/time-to-market for us and our customers.

Technology Professionals

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

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

We believe that our focus on a target set of core Internet technologies and our commitment to continuing training and advancement opportunities makes us an attractive career choice for experienced professionals. Because our strategic partners are established and emerging market leaders, our technology professionals have an opportunity to work with cutting-edge information technology. We foster professional development by training our technology professionals in the skills critical to successful consulting engagements such as implementation methodology and project management.

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

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

The Proficient Promise. We continue to build our corporate culture around a common set of values based on expertise, honesty and teamwork.

We have codified our commitments to each other in The Proficient Promise, which consist of the following seven simple commitments our management and technology professionals make to each other:

- we work with cutting-edge technologies and leading-edge clients;

- we maintain an informal team culture;
- we provide our technology professionals with high-quality infrastructure support services;
- we provide competitive incentives including equity ownership;
- we reinvest in continuing training and education; and
- we treat each other with respect.

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

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

Employees

As of March 29, 2004, we employed 147 full-time employees. Of our total employees, 126 were technology professionals and 21 were involved in sales, general administration and marketing. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage.

Competition

The markets for the services that we provide are highly competitive. We believe that our competitors fall into several categories, including:

- in-house information technology and professional services and support departments of software companies;
- systems integrators, such as Sapient Corporation, SBI and Company, and Braun Consulting;
- large consulting firms, such as Accenture, Bearing Point, Braxton (formerly Deloitte Consulting) and Cap Gemini Ernst & Young;
- information technology staffing firms, such as Keane, Inc. and Aquent (formerly Renaissance Worldwide); and
- other eBusiness solutions service providers engaged by IBM as subcontractors.

We believe that the principal competitive factors affecting our market, and on which we focus our efforts, include experience of personnel, number of customers, the breadth and depth of a given solution, service quality and performance, core technologies, product scalability, reliability and product features and the ability to implement solutions quickly and respond timely to customer needs. In addition, there are relatively low barriers to entry into this market, and we expect to face additional competition from new entrants. We expect competition from offshore outsourcing and development companies to increase in the future.

Most of our competitors have longer operating histories, larger client bases, and greater name recognition and possess significantly greater financial, technical and marketing resources than we do. As a result, our competitors may be better able to attract customers to which we market our services and adapt more quickly to new technologies or evolving customer or industry requirements. Many competitive factors are outside of our control, such as the ability of our competitors to hire, retain and motivate qualified technology professionals.

RISK FACTORS

Risks Specific to Our Business

We have incurred losses during most of the quarters during which we have been in business and we may incur losses in the future.

We have incurred operating losses in most of the quarters during which we have been in business. Although we have recently achieved profitability, 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 that happens, the price of our common stock will likely fall.

We have a limited number of customers and the loss of sales to IBM would materially reduce our revenue and net income.

We have arrangements with a limited number of customers. Revenue from IBM accounted for approximately 35% of total revenues for both the years ended December 31, 2002 and December 31, 2003. Any termination of our relationship with, or significant reduction or modification of the services we perform for, IBM would materially reduce our revenue and net income.

The failure of IBM to pay our accounts receivable would materially impact our cash and working capital balances.

Amounts owed to us by IBM represented 37% of our accounts receivable, or \$2,276,000, as of December 31, 2003. Failure of IBM to pay that amount would have a material adverse effect on our working capital, cash position, business, operating results and financial condition. Failure of IBM to pay us timely could also have a material impact our cash and working capital balances.

IBM may reduce substantially its use of our services, which would materially reduce our revenue and net income.

Our current agreement with IBM will expire on September 1, 2004, and may be terminated by IBM prior to that date upon five (5) days written notice. A decision by IBM to reduce the amount of services performed by us or to terminate the agreement would have an adverse effect on our business, operating results and financial condition. In the event IBM decides not to use our services, our revenue and net income could be materially reduced.

Our customers may not be obligated to use our services.

Our contracts with some of our customers do not obligate them to use our services. A customer may choose at any time to use another consulting firm or to perform the services we provide through internal resources. Termination of a relationship with certain customers, or the decision of such customers to employ other consulting firms or perform services in-house, could materially harm our business.

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

A high percentage of our operating expenses, particularly personnel and rent, are fixed in advance of any particular quarter. 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. Due to these factors, we believe that our historical quarter-to-quarter operating results should not be used to predict our future performance.

Our quarterly revenue, expenses and operating results have varied significantly in the past and are likely to vary significantly in the future. These quarterly fluctuations have been and may continue to be affected by a number of factors, including:

- the loss of a significant customer or project;
- the number and types of projects that we undertake;
- our ability to attract, train and retain skilled management and technology professionals;
- seasonal variations in spending patterns;
- our employee utilization rates, including our ability to transition our technology professionals from one project to another;
- changes in our pricing policies;
- our ability to manage costs; and
- costs related to acquisitions of other businesses.

In addition, many factors affecting our operating results are outside of our control, such as:

- demand for Internet software;
- end-user customer budget cycles;
- changes in end-user 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.

We expect that we may experience seasonal fluctuations in revenues. We expect that revenues in the quarter ending December 31 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. This seasonal trend may materially affect our quarter-to-quarter operating results.

Our revenues are difficult to predict because they are derived from project-based engagements.

Almost all of our revenues are from project-based client engagements, which vary in size and scope. Our revenue is difficult to predict since a client that accounts for a significant portion of revenues in one period may not generate a similar amount of revenue, if any, in subsequent periods. In addition, because many of our project-based client engagements involve sequential stages, each of which may represent a different contractual commitment, a client may choose not to retain us for subsequent stages of an engagement or for new service projects.

Our gross margins are subject to fluctuations as a result of variances in utilization 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. 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 absence of long-term contracts and the need for new partners and business create an uncertain revenue stream, which could negatively affect our financial condition.

We may not grow, or we may be unable to manage our growth.

Our success will depend on our ability to increase the number of our partners, end-user customers and our teams of technology professionals. However, we may not grow as planned or at all. Many of our competitors have longer operating histories, more established reputations, more potential partner and end-user customer relationships and greater financial, technical and marketing resources than we do. If we experience growth, our growth will place significant strains on our management, personnel and other resources. If we are unable to grow or manage our growth effectively, this inability will adversely affect the quality of our services and our ability to retain key personnel, and could materially harm our business.

We may not be able to attract and retain technology 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 utilize highly skilled technology professionals. Additionally, our technology professionals are at-will employees. Any inability to attract, train and retain highly skilled technology professionals would impair our ability to adequately manage, staff and utilize 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 technical personnel.

We believe that our success will depend on retaining our senior management team and key technical personnel. Retention is particularly important in our business as personal relationships are a critical element of obtaining and maintaining our partners. If any of these individuals stops working for us, our level of management, technical, marketing and sales expertise could significantly diminish. These individuals would be difficult to replace, and losing them could seriously harm our business. We may not be able to prevent key personnel, who may leave our employ in the future, from disclosing or using our technical knowledge, practices or procedures. One or more of our key personnel may resign and join a competitor or form a competing company. As a result, we might lose existing or potential clients.

We face risks associated with finding and integrating acquisitions.

We made three acquisitions during 2000 and we completed the acquisitions of Vertecon and Javelin in April 2002. We may continue to expand our technological expertise and geographical presence through selective acquisitions. Any acquisitions or investments we make in the future will involve risks. We may not be able to make acquisitions or investments on commercially acceptable terms. If we do buy a company, we could have difficulty retaining and assimilating that company's personnel. In addition, we could have difficulty assimilating acquired products, services or technologies into our operations and retaining the customers of that company. Our operating results may be adversely affected by increased intangibles amortization, stock compensation expense and increased compensation expense attributable to newly hired employees. Furthermore, our management's attention may be diverted from other aspects of our business and our reputation may be harmed if an acquired company performs poorly. These difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and materially and adversely affect our results of operations. Furthermore, we may incur debt or issue equity securities to pay for any future acquisitions. If we issue equity securities, your ownership share of our common stock will be diluted.

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

Our professional services and software 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.

Risks Relating to Our Industry

The Internet services market demand is subject to uncertainty.

The market for Internet services is relatively new and is evolving rapidly. Our future growth is dependent upon our ability to provide strategic Internet services that are accepted by our end-user customers. Demand and market acceptance for recently introduced services are subject to a high level of uncertainty. The level of demand and acceptance of strategic Internet services is dependent upon a number of factors, including:

- the growth in consumer access to and acceptance of new interactive technologies such as the Internet;
- companies adopting Internet-based business models; and
- the development of technologies that facilitate two-way communication between companies and targeted audiences.

Significant issues concerning the commercial use of these technologies include security, reliability, cost, ease of use and quality of service. These issues remain unresolved and may inhibit the growth of Internet business solutions providers that use these technologies.

We are dependent on the demand for Internet software and services, which may fluctuate.

The market for Internet software and services has changed rapidly over the last four 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 service began to stabilize and improve throughout 2003, but there can be no assurances that this trend will continue. Our future growth is dependent upon the demand for Internet software and services and our ability to provide strategic Internet services that are accepted by our end-user customers. Demand and market acceptance for Internet services are subject to a high level of uncertainty. If companies continue to cancel or delay their business and technology initiatives or choose to move these initiatives in-house because of the current economic climate, or for other reasons, our business, financial condition and results of operations could be materially and adversely affected.

Businesses may decrease or delay their use of advanced technologies as a means for conducting commerce.

Our future success depends heavily on the acceptance and use of advanced technologies as a means for conducting commerce and streamlining operations. We focus our services on the development and implementation of advanced technology strategies and solutions. If the use of these technologies does not grow, or such growth is delayed due to economic uncertainty or other conditions, our revenue could be less than we anticipate and our business, financial condition and results of operations could be materially adversely affected.

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

Rapidly changing technology, evolving industry standards and changing partner needs are common in the Internet professional services market. 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 partner and end-user 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;
- cost and ease of Internet access;
- 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.

Our market is highly competitive and has low barriers to entry.

The market for Internet professional services is relatively new, intensely competitive, rapidly evolving and subject to rapid technological change. In addition, there are relatively low barriers to entry into this market. Because of the rapid changes to, and volatility in, the Internet software and service industry, many well-capitalized companies that may have chosen sectors of the industry that are not competitive with our business, including some of our partners, may refocus their activities and resources. As a result, they could deploy their resources and enter into a business that is competitive with ours.

Many of our current and potential competitors have longer operating histories, more established reputations and potential partner relationships and greater financial, technical, industry and marketing resources than we do. This may place us at a disadvantage to our competitors, which may harm our ability to grow or maintain revenue or generate net income.

Risks Relating to Ownership of Our Stock

The trading volume of our common stock has been limited and, as a result, our stock price has been, and will likely continue to be, volatile.

Our common stock is traded on the NASDAQ SmallCap Market under the symbol "PRFT." The trading volume of our common stock has been limited, and the stock prices have been volatile. Our

common stock price may continue to be highly volatile and may fluctuate as a result of the limited trading volume.

Our officers, directors, and 5% and greater stockholders own a large percentage of our voting securities.

Our executive officers, directors and existing 5% and greater stockholders beneficially own or control greater than 38% of the voting power of our common stock. This concentration of ownership of our common stock may make it difficult for other Perficent 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.

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

Provisions of our certificate of incorporation, by-laws and Delaware law could make it difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. 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 change of control transaction 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.

We may need additional capital in the future, which may not be available to us. The raising of any additional capital may reduce the ownership percentages of our existing shareholders.

We believe our existing line of credit and working capital should provide sufficient resources to satisfy our near term capital requirements. Our existing line of credit facility expires in December 2004. 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 reduce the ownership percentages of existing shareholders. Furthermore, we cannot be certain that any additional financing we may need will be available on terms favorable to us, or at all. In such case, our business results would suffer.

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Some of the statements contained in or considered a part of this annual report on Form 10-KSB that are not purely historical statements discuss future expectations, contain projections of results of operations or financial condition or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The "forward-looking" information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed under the heading "Risks Factors" in this Report on Form 10-KSB. Moreover, neither we nor any other person

assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this Report to conform such statements to actual results.

ITEM 2—DESCRIPTION OF PROPERTY

We lease approximately 2,700 square feet of office space in Austin, Texas from CarrAmerica Realty, L.P.. The initial term of the lease is two years from April 2003 with the right to extend the lease for one additional period of two years. We lease approximately 25,952 square feet of office space in the St. Louis, Missouri area from Creve Coeur Development LLC that extends through October 2005. We lease approximately 18,889 square feet of office space in Minneapolis, Minnesota under an agreement with Butler Properties, LLC that extends through May 2007. We also sublease approximately 4,200 square feet of office space in Downers Grove, Illinois from ICS Deloitte Management LLC. The term of the sublease is from September 2003 through May 2009. We also lease office space in London, Ontario under an agreement that expires in 2004.

ITEM 3—LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

ITEM 4—SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The following matters were voted upon at the Annual Meeting of Stockholders held on December 30, 2003, and received the votes set forth below:

1.

Each of our directors were nominated for reelection and were elected to serve as directors as indicated below. There were no abstentions.

	For	Withheld
John T. McDonald	8,775,118	490,279
David S. Lundeen	8,695,506	569,891
Dr. W. Frank King	9,134,112	131,285
Philip J. Rosenbaum	9,133,862	131,535
Max D. Hopper	9,037,766	227,631
Robert Pickering, Jr.	9,254,512	10,885

2.

A proposal to ratify the appointment of Ernst & Young, LLP as Perficient's independent auditors for the fiscal year ended December 31, 2003 was approved, receiving 9,130,185 votes FOR and 126,800 votes AGAINST, with 8,412 abstentions.

PART II

ITEM 5—MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the Nasdaq SmallCap Market under the symbol "PRFT." Public trading of our common stock commenced on July 29, 1999. Prior to that, there was no public market for our common stock. The following table sets forth, for the periods indicated, the high and low closing price per share of our common stock on the Nasdaq SmallCap Market.

	High		Low	
Year Ended December 31, 2002:				
First Quarter	\$	2.25	\$	0.95
Second Quarter		1.65		0.90
Third Quarter		1.61		0.43
Fourth Quarter		2.48		0.33
Year Ended December 31, 2003:				
First Quarter	\$	1.07	\$	0.50
Second Quarter		1.29		0.55
Third Quarter		3.03		0.94
Fourth Quarter		3.82		2.15

As of December 31, 2003, there were in excess of 2,400 holders of our common stock. On March 29, 2004, the last sale price reported on the Nasdaq SmallCap Market for our common stock was \$3.73 per share.

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 line of credit currently prohibits the payment of cash dividends without the prior written consent of Silicon Valley Bank. Our Series A Preferred Stock accrued dividends at an annual rate of the prime rate plus 1.5% and our Series B Preferred stock accrued dividends at an annual rate of 8%. On November 10, 2003 all outstanding shares of Series A Preferred Stock and Series B Preferred Stock were automatically converted into common stock, and as a result all accrued dividends were forfeited. During 2003, the Company paid \$45,457 in dividends to certain holders of Series A Preferred Stock that had voluntarily converted their holdings into common stock prior to the date of automatic conversion.

Equity Compensation Plan Information

The following table provides information with respect to the equity securities that are authorized for issuance under our compensation plans as of December 31, 2003:

	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders(1)	5,234,896	\$ 2.49	677,192
Equity compensation plans not approved by security holders(2)(3)(4)	106,383	\$ 0.31	—
Total	5,341,279	\$ 2.45	677,192

- (1) Represents 6,189,063 shares authorized for issuance under the Perficient, Inc. 1999 Stock Option/Stock Issuance Plan. The automatic share increase program provides for an increase each year equal to 8% of the outstanding Common Stock on the last trading day in December of the previous year. Pursuant to our automatic share increase program, 1,122,660 additional shares were authorized for issuance under the plan as of January 1, 2004.
- (2) Represents options to purchase 106,383 shares of our Common Stock with an exercise price of \$0.31 per share that were granted in September 2001 to John T. McDonald, our Chief Executive Officer and Chairman of the Board, in lieu of a \$50,000 cash bonus.
- (3) In connection with the merger of Javelin Solutions, Inc. into our wholly-owned subsidiary and the merger of Primary Webworks, Inc. d/b/a Vertecon, Inc. into our wholly-owned subsidiary, we assumed Javelin's stock option plan and Vertecon's stock option plan and all the outstanding options thereunder. Each outstanding option under the Javelin plan and the Vertecon plan was converted into an option to purchase our Common Stock. No future awards may be made under the respective plans. These amounts exclude (i) options to purchase approximately 182,106 shares of our Common Stock exercisable for a weighted-average exercise price of \$1.08 per share issued in connection with our assumption of the Javelin plan and (ii) options to purchase approximately 64,291 shares of our Common Stock exercisable for a weighted average exercise price of \$4.40 per share issued in connection with our assumption of the Vertecon plan.
- (4) These amounts exclude options to purchase 91,817 shares of our Common Stock with an exercise price of \$3.36 per share and options to purchase 46,699 shares of our Common Stock with an exercise price of \$0.02 per share that were issued to certain employees of Compete, Inc. and assumed in connection with our May 2000 acquisition of Compete, Inc.

ITEM 6—MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto and the other financial information included elsewhere in this annual report on Form 10-KSB. In addition to historical information, this management's discussion and analysis of financial condition and results of operations and other parts of

this annual report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking information as a result of certain factors, including but not limited to, those set forth under Risk Factors and elsewhere in this annual report.

We were incorporated in September 1997 and began generating revenue in February 1998. We generate revenue from professional services performed for our end-user customers, and the end-user customers of our software partners. Additionally, we generate revenue from reselling software.

In August 2003, we entered into a one-year extension of our existing services agreement with IBM under which we provide deployment, integration and training services to IBM's WebSphere™ customers. The current agreement will terminate on September 1, 2004. Prior to that date, IBM has the right to terminate the agreement upon five (5) days prior written notice. Revenue from IBM accounted for approximately 35% of total revenue for both 2002 and 2003, and accounts receivable from IBM comprise approximately 35% and 37% of gross accounts receivable as of December 31, 2002 and December 31, 2003, respectively. Accordingly, any deterioration in our relationship with IBM could have a material adverse effect on our consulting revenue and net income. Our agreements generally do not obligate our customers to use our services for any minimum amount, or at all, and our customers may use the services of our competitors.

Revenue is derived primarily from professional services provided on a time and materials basis, with the remaining revenue provided from fixed fee engagements and software sales. For time and material contracts, revenue is recognized and billed by multiplying the number of hours expended by our professionals in the performance of the contract by the established billing rates. For fixed fee projects, revenue is generally recognized using the proportionate performance method. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. On many projects we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenue. Revenue from resold 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 resale transaction and act as an agent, the revenue is recorded on a net basis.

Our revenue and operating results are subject to substantial variations based on our customers' expenditures and the frequency with which we are chosen to perform services for our customers. Revenue from any given customer will vary from period to period. We expect, however, that IBM will remain a significant customer for the foreseeable future. To the extent that IBM, or any other significant customer, uses less of our services or terminates its relationship with us, our revenue could decline substantially.

Our 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 the respective period), the salaries we pay our consulting professionals, and the average rate we receive from our customers. If a project ends earlier than scheduled or we retain professionals in advance of receiving project assignments, our utilization rate will decline and adversely affect our gross margins.

During 2002, we implemented certain workforce reductions and office closures resulting in charges of \$579,427, consisting of severance pay and related benefits for former employees in addition to the costs associated with the closure of our London office. As part of these restructurings, we reduced our workforce by a total of 30 employees, of which 17 were technology professionals and 13 were involved in selling, general administration and marketing. As of December 31, 2002, approximately \$228,000 of restructuring costs is included in other current liabilities, all of which was paid during 2003. There was no restructuring expense during 2003.

Results of Operations

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

Revenue. Total gross revenue increased from \$22,450,284 for the year ended December 31, 2002 to \$30,191,922 for the year ended December 31, 2003. Services revenue increased from \$20,391,587 in 2002 to \$24,534,617 in 2003. The increase in services revenue resulted in part from the additional headcount related to the April 2002 acquisitions of Vertecon and Javelin, which impacted revenue for the full period in 2003, as well as the use of additional subcontractors during 2003. The increase in services revenue is also the result of an improvement in employee utilization rates. For the years ended December 31, 2002 and 2003, 35% of our revenue was derived from IBM. Revenue from resold software increased from \$402,889 in 2002 to \$3,786,864 in 2003. Revenue from reselling software is expected to fluctuate between periods depending on our customers' demand for such software. Generally we are reimbursed for our out-of-pocket expenses incurred in connection with our customers' consulting projects. Reimbursable expenses increased from \$1,655,808 in 2002 to \$1,870,441 in 2003. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our customers, the general fluctuation of travel costs such as airfare, and the total number of our projects that require travel.

Cost of Revenue. Cost of revenue, consisting of salaries and benefits associated with our technology professionals, subcontractor costs, cost of resold software, and reimbursed and project related expenses, increased from \$13,539,219 for the year ended December 31, 2002 to \$18,816,509 for the year ended December 31, 2003. The increase in cost of revenue is due to the increase in average salaries 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. Subcontractor costs increased from \$449,000 in 2002 to \$977,000 in 2003. In addition, costs associated with resold software increased by \$2,737,855 in connection with the increased software revenue in 2003 compared to 2002. Reimbursable expenses will fluctuate with the associated revenue because our customers reimburse us for these costs. Other project related expenses consist of travel and other out-of-pocket costs that are not reimbursed by our customers. These expenses will fluctuate depending generally on outside factors including the costs of travel and the location of our customers.

Gross Margin. Gross margin increased from \$8,911,065 for the year ended December 31, 2002 to \$11,375,413 for the year ended December 31, 2003. Gross margin as a percentage of revenue decreased slightly from 40% in 2002 to 38% in 2003. The decrease in gross margin as a percentage of revenue is primarily due to the increase in average salaries as well as the increase in software resales, which typically yield a lower margin than our services revenue. Services gross margin was 43% in 2002 and 2003. Software gross margin was 15% in 2002 and 19% in 2003. Gross margins can fluctuate depending upon a number of factors including our ability to successfully manage the utilization rates and salaries of our consultants, and the rates we can charge for our services.

Selling, General and Administrative. Selling, general and administrative expenses consist of salaries and benefits for sales, executive and administrative employees, training, marketing activities, investor relations, recruiting, non-reimbursable travel costs and expenses and miscellaneous expenses. Selling, general and administrative expenses decreased from \$8,327,010 for the year ended December 31, 2002 to \$7,857,081 for the year ended December 31, 2003. 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 from 37% for the year ended December 31, 2002 to 26% for the year ended December 31, 2003. The

decrease in selling, general and administrative expenses as a percent of revenue is the result of an increase in software resales, 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.

Stock Compensation. Stock compensation expense consists of non-cash compensation arising from certain option grants to employees with exercise prices below fair market value at the date of grant, option grants made to outside consultants, and compensation expense associated with unvested stock options assumed in business combinations. Stock compensation expense decreased from \$240,688 during the year ended December 31, 2002 to \$135,927 for the year ended December 31, 2003 due to the fact that most unearned stock compensation became fully amortized to expense during 2003. Deferred stock compensation remaining at December 31, 2003 totaled \$26,623 and is expected to be amortized to expense in its entirety during 2004.

Depreciation. Depreciation expense decreased slightly from \$687,570 during 2002 to \$670,436 during 2003. 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 \$579,427, consisting of severance pay and related benefits for former employees as well as costs associated with the closure of the London office. We recognized \$118,000 of restructuring expense during 2002 related to the closure of the 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, of which 17 were technology professionals and 13 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, Inc. in May 2000, Core Objective, Inc. in November 2000, and Vertecon and Javelin in April 2002. Amortization decreased from \$1,285,524 during the year ended December 31, 2002 to \$610,421 during the year ended December 31, 2003. 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 was \$203,569 during the year ended December 31, 2002 compared to \$285,938 for the year ended December 31, 2003. 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 facility.

Provision for Income Taxes. Our 2003 income tax provision was accrued for federal, state and foreign income tax at the applicable statutory rates. Although we have certain net operating loss carryforwards, substantially all of these losses relate to acquired entities and are subject to limitations due to "Change in control" provisions in the Internal Revenue Code. As such, the deferred tax asset resulting from these net operating loss carryforwards have a valuation allowance against them, and our tax provision does not materially benefit from these net operating loss carryforwards. There was no tax provision for 2002 as a result of the net loss for that period.

Liquidity And Capital Resources

We have a line of credit arrangement with Silicon Valley Bank that will expire in December 2004. The agreement allows us to borrow up to 80% of eligible accounts receivable as defined in the

agreement up to a maximum of \$6,000,000. We are also required to comply with certain financial covenants under this agreement which require us to maintain a minimum tangible net worth of at least \$3,000,000 and to maintain a ratio of cash plus accounts receivable to current liabilities of at least 1.25 to 1.00 through March 31, 2004, at which time the ratio will increase to at least 1.50 to 1.00. Borrowings under the agreement bear interest at the bank's prime rate plus 1.00% (5.0% as of December 31, 2003). As of December 31, 2003, there were no amounts outstanding under this line of credit and available borrowings totaled \$3,072,591.

In connection with the acquisitions of Javelin and Vertecon in April 2002, we were required to establish various letters of credit totaling \$550,000 to serve as collateral for certain office space and equipment leases. These letters of credit reduce the borrowings available under our line of credit facility with Silicon Valley Bank. The letters of credit totaling \$300,000 will remain in effect through 2005, and the remaining letter of credit of \$250,000 will remain in effect through 2007.

Cash provided by operations for the year ended December 31, 2003 was \$1,885,477. As of December 31, 2003, we had \$1,989,395 in cash and working capital of \$4,013,373.

On December 21, 2001, we entered into a Convertible Preferred Stock Purchase agreement under which we sold 1,984,000 shares of Series A Convertible Preferred Stock for a purchase price of \$1.00 per share. In November 2003, all shares of then outstanding Series A Preferred Stock were automatically converted into 2,003,840 shares of common stock. We also issued Warrants to purchase up to 992,000 shares of our common stock in connection with this issuance. As a result of the Series B Preferred Stock issuance (described below), the number of warrants issued to the Series A investors increased to 1,001,604 and the exercise price was adjusted to \$1.98 per share.

We entered into a Convertible Preferred Stock Purchase Agreement, dated as of June 26, 2002, with 2M Technology Ventures, L.P. under which we sold 1,111,000 shares of our Series B Convertible Preferred Stock to 2M for a purchase price of approximately \$0.90 per share. In November 2003, the Series B Preferred stock was automatically converted into 1,111,000 shares of common stock. We have also issued to 2M, a Warrant to purchase up to 555,500 shares of our Common Stock in connection with this sale of Series B Preferred Stock. In February 2004, 2M exercised 277,750 warrants.

2M had the option to purchase up to an additional 1,666,500 shares of our Series B Convertible Preferred Stock at a price of approximately \$0.90 per share exercisable on or before June 26, 2003. 2M would have received a Warrant to purchase one share of our common stock for every two shares of Series B Preferred Stock it purchases pursuant to the option. The option to 2M expired unexercised in June 2003.

In connection with the acquisition of Javelin, we issued \$1.5 million in notes, of which \$1 million of the notes are payable in four equal annual installments on the anniversary of the closing date of the acquisition. The other \$500,000 is payable in eight equal quarterly installments that commenced in July 2002. Accordingly, we paid \$125,000 in 2002 and \$500,000 in 2003. We expect to make payments on these notes totaling \$375,000 in 2004, \$250,000 in 2005, and \$250,000 in 2006.

We have incurred commitments to make future payments under contracts such as leases and certain long-term liabilities. Maturities under these contracts are set forth in the following table of December 31, 2003, in thousands:

	Payments due by Period					
	2004	2005	2006	2007	2008	Thereafter
Operating lease obligations	\$ 1,183	\$ 1,237	\$ 574	\$ 243	\$ 87	\$ 35
Note payable to Related Party	\$ 333	\$ 226	\$ 244	\$ —	\$ —	\$ —

We expect to fund our operations during 2004 from cash generated from operations and short-term borrowings as necessary from our line of credit facility. We believe our existing working

capital and line of credit should provide sufficient resources to satisfy our capital requirements through at least 2004. The amount of borrowings available to us is based on a percentage of our receivables. If our capital is insufficient to fund our activities in either the short or long term, we may need to raise additional funds. In the ordinary course of business, we may engage in discussions with various persons in connection with additional financing. If we raise additional funds through the issuance of equity securities, our existing stockholders' percentage ownership will be diluted. These equity securities may also have rights superior to our common stock. Additional debt or equity financing may not be available when needed or on satisfactory terms. If adequate funds are not available on acceptable terms, we may be unable to expand our services, respond to competition, pursue acquisition opportunities or continue our operations.

Critical Accounting Policies

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 resold 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 resale 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 record an expense for the expected losses on uncollectible accounts receivable each period based on known facts and circumstances for the respective period.

We adopted Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("Statement 142") on January 1, 2002. In accordance with Statement 142, we replaced the ratable amortization of goodwill and other indefinite-lived intangible assets 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.

ITEM 7—CONSOLIDATED FINANCIAL STATEMENTS

The financial statements required by this Item 7 are listed in Item 13(a)(1) and begin at page F-1 of this Report.

ITEM 8—CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

Not applicable.

ITEM 8A—CONTROLS AND PROCEDURES

We performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of December 31, 2003.

There have been no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART III

Certain information required by Part III is omitted from this report because we intend to file a definitive Proxy Statement pursuant to Regulation 14A no later than April 29, 2004, and certain information to be included therein is incorporated herein by reference.

ITEM 9—DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS OF REGISTRANT

The information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Proposal 1—Election of Directors," "Executive Compensation" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

ITEM 10—EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the Proxy Statement under the sections captioned "Proposal 1—Election of Directors," "Executive Compensation" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934."

ITEM 11—SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information under the caption "Ownership of Securities," appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 12—CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information under the heading "Certain Transactions," appearing in the Proxy Statement, is incorporated herein by reference.

ITEM 13—EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K

(a)

(1) Financial Statements

The following consolidated financial statements of the Company are filed as part of this Annual Report on Form 10-KSB as follows:

Report of Independent Auditors	F-2
Consolidated Balance Sheets at December 31, 2002 and 2003	F-3
Consolidated Statements of Operations for the years ended December 31, 2002 and 2003	F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2002 and 2003	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2002 and 2003	F-6
Notes to Consolidated Financial Statements	F-7

(a)

(2) Financial Statement Schedules

Not applicable.

(a)

(3) Exhibits

Exhibit Number	Description
2.1##	Agreement and Plan of Merger, dated as of September 30, 2001, by and among Perficient, Inc., Perficient Vertecon, Inc., Primary Webworks, Inc. d/b/a Vertecon, Inc., and certain shareholders of Vertecon, Inc.
2.2##	Agreement and Plan of Merger, dated as of October 26, 2001, by and among Perficient, Inc., Perficient Javelin, Inc., Javelin Solutions, Inc. and the shareholders of Javelin Solutions, Inc.
3.1+	Certificate of Incorporation of Perficient, Inc.
3.2+	Bylaws of Perficient Inc.
4.1+	Specimen Certificate for shares of common stock.
4.2+	Warrant granted to Gilford Securities Incorporated.
4.3+++	Certificate of Designation, Rights and Preferences of Series A Preferred Stock.
4.4+++	Form of Common Stock Purchase Warrant.
4.5###	Certificate of Designation, Rights and Preferences of Series B Preferred Stock.
4.6###	Form of Common Stock Purchase Warrant.
10.1**	1999 Stock Option/Stock Issuance Plan, including all amendments thereto.
10.2##	Employment Agreement between the Company and John T. McDonald.
10.3+	Form of Indemnity Agreement between Perficient and its directors and officers.
10.4*	Agreement and Plan of Merger, dated as of December 10, 1999, by and among the Registrant, Perficient Acquisition Corp., LoreData, Inc. and John Gillespie (including amendments thereto).
10.5**	Agreement and Plan of Merger, dated as of February 16, 2000 by and among the Registrant, Perficient Compete, Inc., Compete Inc., and the Shareholders of Compete, Inc.
10.6***	Registration Rights Agreement, dated as of January 3, 2000 between Perficient and John Gillespie.

- 10.7*** Subcontract Agreement, dated as of November 4, 1999 between Perficient and Plumtree, Inc.
- 10.8++ Lease by and between HUB Properties Trust and Perficient.
- 10.9# Agreement dated October 10, 2000 between Perficient and International Business Machines, Inc.
- 10.10## Employment Agreement with Jeffrey Davis
- 10.11## Employment Agreement with Dale Klein
- 10.12## Form of Voting Agreement regarding Vertecon Stock Issuance
- 10.13## Form of Voting Agreement regarding Javelin Stock Issuance
- 10.14## Form of Voting Agreement regarding Series A Preferred Stock and Warrants
- 10.15+++ Convertible Stock Purchase Agreement, dated as of December 21, 2001 by and among Perficient and the Investors listed on Schedule 1 thereto
- 10.16### Convertible Stock Purchase Agreement, dated as of June 26, 2002 by and between Perficient and the Investor listed on Schedule 1 thereto.
- 10.17### First Amended and Restated Investor Rights Agreement dated as of June 26, 2002 by and between Perficient, Inc. and the Investors listed on Exhibits A and B thereto.
- 10.18 Amendment dated August 28, 2003 to existing agreement dated August 17, 2000 between International Business Machines Corporation and Perficient, Inc.
- 10.19 Employment agreement with John T. McDonald and Perficient, Inc. dated January 1, 2004.
- 21.1## Subsidiaries.
 - 23.1 Consent of Ernst & Young LLP.
 - 31.1 Certification to the Securities and Exchange Commission by Small Business Issuer's Chief Executive Officer and Chief Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Certification of Chief Executive Officer and Chief Financial Officer of Perficient, Inc. pursuant to 18 U.S.C. Section 1350.
 - 99.1 Loan and security agreement dated December 5, 2003 between Silicon Valley Bank and Perficient, Inc.

+ Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference.

++ Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-35948) declared effective on July 6, 2000 by the Securities and Exchange Commission and incorporated herein by reference.

+++ Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on January 17, 2002 and incorporated herein by reference.

* Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on January 14, 2000 and incorporated herein by reference.

**

Previously filed with the Securities and Exchange Commission as an Appendix to the Company's Proxy Statement filed on April 7, 2000 and incorporated herein by reference.

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-KSB filed on March 30, 2000 and incorporated herein by reference.

#

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Annual Report on Form 10-KSB filed on April 2, 2001 and incorporated herein by reference.

##

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Registration Statement on Form S-4 (File No. 333-73466) incorporated herein by reference.

###

Previously filed with the Securities and Exchange Commission as an Exhibit to the Company's Current Report on Form 8-K filed on July 18, 2002 and incorporated by reference herein.

(b)

Reports on Form 8-K

On October 20, 2003, we filed a Current Report on Form 8-K pursuant to Item 5 (Other Events) to report the voluntary resignation of Michael J. Cromwell, III as a member of the Board of Directors of Perficient, Inc.

On October 28, 2003, we filed a Current Report on Form 8-K pursuant to Item 12 (Results of Operations and Financial Condition) to report our financial results for the quarter ended September 30, 2003.

On November 3, 2003, we filed a Current Report on Form 8-K pursuant to Item 9 (Regulation FD Disclosure) to announce updated guidance on revenue for the year ended December 31, 2003, and announced revenue guidance for the quarter ended December 31, 2003.

We filed a Form 8-K with the Securities and Exchange Commission on November 17, 2003 to report the automatic conversion of outstanding Series A Preferred Stock and Series B Preferred Stock into approximately 2.9 million shares of Perficient common stock.

ITEM 14—PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under the caption "Principal Accountant Fees and Services," appearing in the Proxy Statement, is incorporated herein by reference.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PERFICIENT, INC.
(Registrant)

/s/ JOHN T. MCDONALD

John T. McDonald
Chief Executive Officer

March 30, 2004

Date

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ JOHN T. MCDONALD		
John T. McDonald	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 30, 2004
/s/ MICHAEL D. HILL		
Michael D. Hill	Chief Financial Officer	March 30, 2004
/s/ DAVID S. LUNDEEN		
David S. Lundeen	Director	March 30, 2004
/s/ DR. W. FRANK KING		
Dr. W. Frank King	Director	March 30, 2004
/s/ PHILIP J. ROSENBAUM		
Philip J. Rosenbaum	Director	March 30, 2004
/s/ ROBERT E. PICKERING, JR.		
Robert E. Pickering, Jr.	Director	March 30, 2004
/s/ MAX HOPPER		
Max Hopper	Director	March 30, 2004

PERFICIENT, INC.

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Perficient, Inc. and Subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

/s/ Ernst & Young LLP

Austin, Texas
January 9, 2004

PERFICIENT, INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2002	2003
ASSETS		
Current assets:		
Cash	\$ 1,525,002	\$ 1,989,395
Accounts receivable, net of allowance for doubtful accounts of \$661,248 in 2002 and \$622,995 in 2003	3,938,373	5,534,607
Other current assets	382,542	297,058
Total current assets	5,845,917	7,821,060
Property and equipment:		
Hardware	1,496,429	1,685,577
Furniture and fixtures	726,861	655,662
Leasehold improvements	234,285	234,671
Software	248,697	263,059
Accumulated depreciation	(1,495,254)	(2,139,824)
Net property and equipment	1,211,018	699,145
Net intangible assets	12,380,039	11,693,834
Other noncurrent assets	156,129	45,944
Total assets	\$ 19,593,103	\$ 20,259,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 426,686	\$ 129,895
Line of credit	540,011	—
Current portion of capital lease obligation	235,034	—
Other current liabilities	2,304,433	3,310,872
Current portion of note payable to related party	485,477	366,920
Total current liabilities	3,991,641	3,807,687
Note payable to related party, less current portion	745,318	436,258
Capital lease obligation, less current portion	334,661	—
Total liabilities	5,071,620	4,243,945
Stockholders' equity:		
Preferred stock, \$0.001 par value; 8,000,000 shares authorized; 3,095,000 shares in 2002 and 0 shares in 2003 issued and outstanding	3,095	—
Common stock, \$0.001 par value; 40,000,000 shares authorized; 10,537,226 shares in 2002 and 14,033,246 shares in 2003 issued and outstanding	10,537	14,033
Additional paid-in capital	75,993,344	76,315,780
Unearned stock compensation	(164,773)	(26,623)
Accumulated other comprehensive loss	(35,366)	(51,830)
Retained deficit	(61,285,354)	(60,235,322)
Total stockholders' equity	14,521,483	16,016,038
Total liabilities and stockholders' equity	\$ 19,593,103	\$ 20,259,983

See accompanying notes.

PERFICIENT, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

See accompanying notes.

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

	Preferred Stock		Common Stock		Subscription Receivable	Warrants	Additional Paid-in Capital	Unearned Stock Compensation	Accumulated Other Comprehensive Loss	Retained Deficit	Total Shareholders' Equity
	Shares	Amount	Shares	Amount							
Balance at January 1, 2002	—	\$ —	6,288,566	\$ 6,289	\$ —	\$ —	\$ 66,140,446	\$ (348,021)	\$ (72,103)	\$ (58,890,310)	\$ 6,836,301
Issuance of common stock and options in purchase of businesses	—	—	4,210,799	4,211	—	—	7,213,875	(266,173)	—	—	6,951,913
Issuance of Series A preferred stock, net of amount held in escrow	1,984,000	1,984	—	—	(1,984,000)	—	1,982,016	—	—	—	—
Issuance of warrants in connection with Series A preferred stock issuance	—	—	—	—	—	426,560	(426,560)	—	—	—	—
Release of preferred stock proceeds from escrow	—	—	—	—	1,984,000	—	—	—	—	—	1,984,000
Issuance cost for Series A preferred stock	—	—	—	—	—	6,595	(109,040)	—	—	—	(102,445)
Issuance of Series B preferred stock	1,111,000	1,111	—	—	—	—	998,889	—	—	—	1,000,000
Issuance cost for Series B preferred stock	—	—	—	—	—	—	(38,284)	—	—	—	(38,284)
Issuance of warrants in connection with Series B preferred stock issuance	—	—	—	—	—	170,085	(170,085)	—	—	—	—
Stock options exercised	—	—	37,861	37	—	—	7,580	—	—	—	7,617
Deferred stock compensation	—	—	—	—	—	—	(208,733)	208,733	—	—	—
Amortization of unearned compensation	—	—	—	—	—	—	—	240,688	—	—	240,688
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	36,737	—	36,737
Net loss	—	—	—	—	—	—	—	—	—	(2,395,044)	(2,395,044)
Total comprehensive loss											(2,358,307)
Balance at December 31, 2002	3,095,000	\$ 3,095	10,537,226	\$ 10,537	\$ —	\$ 603,240	\$ 75,390,104	\$ (164,773)	\$ (35,366)	\$ (61,285,354)	\$ 14,521,483
Conversion of preferred stock	(3,095,000)	(3,095)	3,114,840	3,115	—	—	(20)	—	—	—	—
Forfeiture of merger consideration	—	—	(44,787)	(45)	—	—	(64,448)	—	—	—	(64,493)
Series A dividend payment	—	—	—	—	—	—	(45,457)	—	—	—	(45,457)
Other	—	—	10,327	10	—	—	10,215	—	—	—	10,225
Warrants exercised	—	—	151,500	151	—	(64,500)	364,349	—	—	—	300,000
Stock options exercised	—	—	264,140	265	—	—	133,185	—	—	—	133,450
Deferred stock compensation	—	—	—	—	—	—	(2,223)	2,223	—	—	—
Amortization of unearned compensation	—	—	—	—	—	—	—	135,927	—	—	135,927
Preferred stock issuance costs	—	—	—	—	—	—	(8,665)	—	—	—	(8,665)
Foreign currency translation adjustment	—	—	—	—	—	—	—	—	(16,464)	—	(16,464)
Net income	—	—	—	—	—	—	—	—	—	1,050,032	1,050,032
Total comprehensive income											1,033,568
Balance at December 31, 2003	—	\$ —	14,033,246	\$ 14,033	\$ —	\$ 538,740	\$ 75,777,040	\$ (26,623)	\$ (51,830)	\$ (60,235,322)	\$ 16,016,038

See accompanying notes.

PERFICIENT, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2002	2003
OPERATING ACTIVITIES		
Net income (loss)	\$ (2,395,044)	\$ 1,050,032
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Depreciation	687,570	670,436
Intangibles amortization	1,285,524	610,421
Non-cash stock compensation	240,688	135,927
Non-cash interest expense	63,295	72,383
Non-cash interest income	(11,017)	—
Loss on disposal of assets	11,341	30,954
Changes in operating assets and liabilities (net of the effect of acquisitions):		
Accounts receivable	887,275	(1,577,259)
Other assets	(85,167)	199,753
Accounts payable	149,608	(297,185)
Other liabilities	(476,737)	990,015
Net cash provided by operating activities	357,336	1,885,477
INVESTING ACTIVITIES		
Purchase of property and equipment	(167,323)	(191,207)
Purchase of businesses, net of cash acquired	(725,848)	—
Payments on Javelin notes	(125,000)	(500,000)
Advances to Vertecon	(200,000)	—
Proceeds from disposal of assets	1,700	1,950
Net cash used in investing activities	(1,216,471)	(689,257)
FINANCING ACTIVITIES		
Payments on capital lease obligation	(352,575)	(569,695)
Proceeds from short-term borrowings	533,641	166,282
Payments on short-term borrowings	(2,089,030)	(706,293)
Payments on long-term debt	(6,903)	—
Proceeds from issuance of preferred stock	2,984,000	—
Preferred stock issuance costs	(130,504)	(8,665)
Payment of dividends	—	(45,457)
Proceeds from stock issuances, net	7,617	433,450
Net cash provided by (used in) financing activities	946,246	(730,378)
Effect of exchange rate on cash and cash equivalents	25,653	(1,449)
Change in cash and cash equivalents	112,764	464,393
Cash and cash equivalents at beginning of period	1,412,238	1,525,002
Cash and cash equivalents at end of period	\$ 1,525,002	\$ 1,989,395
Supplemental disclosures:		
Interest paid	\$ 176,453	\$ 207,326
Cash paid for income taxes	\$ —	\$ 449,768
Non cash activities:		
Common stock and options issued in purchase of businesses	\$ 7,218,086	\$ —
Issuance of note payable in purchase of business	\$ 1,292,500	\$ —

See accompanying notes.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2003

1. Business Overview

Perficient, Inc. (the "Company") is an eBusiness solutions provider to large and major midsize companies and Internet software vendors. The Company enables its clients and partners to optimize profitability and strengthen customer relationships through reliable, quick-to-market eBusiness solutions. The Company provides a broad range of end-to-end business and technology solutions with a focus on serving the financial services, healthcare, technology and energy industries.

The Company was incorporated on September 17, 1997 in Texas. The Company began operations in 1997 and is structured as a "C" corporation. On May 3, 1999 the Company reincorporated in Delaware. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates, and such differences could be material to the financial statements.

Revenue Recognition

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

Cash Equivalents

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

Advertising Expense

The cost of advertising is expensed as incurred. Advertising costs for the years ended December 31, 2002 and 2003 were not material.

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the useful lives of the assets (generally 2 to 5 years). Leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the assets. Amortization of assets recorded under capital leases is computed using the straight-line method and is included in depreciation expense. The cost and accumulated amortization of assets recorded under capital leases was approximately \$412,000 and \$52,000, respectively, at December 31, 2002 and approximately \$412,000 and \$134,000, respectively, at December 31, 2003.

Intangible Assets

Intangible assets, primarily resulting from purchase business combinations, are being amortized using the straight-line method with a life of two to three years for employment and non-compete agreements and a life of three to five years for customer relationship intangibles. Intangible assets consist of the following:

	December 31,	
	2002	2003
Cost:		
Employment and noncompete agreements	\$ 550,000	\$ 550,000
Customer relationships	3,600,000	3,600,000
Goodwill	36,384,000	36,308,000
Accumulated amortization:		
Employment and noncompete agreements	(370,000)	(518,000)
Customer relationships	(2,805,000)	(3,267,000)
Goodwill	(24,979,000)	(24,979,000)
Net Book Value:	\$ 12,380,000	\$ 11,694,000

Amortization expense for employment, non-compete agreements, and customer relationships is expected to be approximately \$132,237 in 2004, \$100,000 in 2005, \$100,000 in 2006, and \$32,237 in 2007.

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. Under these rules, ratable amortization of intangibles assets with indefinite lives, including goodwill, has been replaced with periodic review and analysis to assess possible impairment. Intangible assets with definite lives must be amortized over their estimated useful lives. In accordance with SFAS No. 142, the Company assesses its goodwill on October 1 of each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The goodwill impairment test is a two-step

process. The first step of the impairment analysis compares the fair value to the net book value. In determining fair value, management utilizes a blended approach and calculates fair value based on market capitalization, revenue and earnings multiples based on industry comparables, and discounted cash flow analysis. Step two of the analysis compares the implied fair value of goodwill to its carrying amount. If the carrying amount of goodwill exceeds its implied fair value, an impairment loss is recognized equal to that excess.

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 the Company's consolidated financial statements. Management assesses 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. Management's 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 management to conclude that impairment indicators exist and that goodwill associated with the acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on the Company's results of operations by decreasing net income.

Impairment of Long-Lived Assets

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

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Foreign Currency Transactions

For the Company's foreign subsidiaries, the functional currency has been determined to be the local currency, and therefore, assets and liabilities are translated at year-end or period-end exchange rates, and income statement items are translated at average exchange rates prevailing during the year or period. Such translation adjustments are recorded in aggregate as a component of stockholders' equity. Gains and losses from foreign currency denominated transactions, including a \$7,500 loss during 2002 and a \$15,800 gain in 2003, are included in other income (expense). Due to the on-going

liquidation of the United Kingdom subsidiary, a foreign currency gain of \$15,500 was transferred from cumulative translation adjustments and included as a component of net income for the year ended December 31, 2003.

Segments

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

Earnings Per Share

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

Stock-Based Compensation

SFAS No. 123, *Accounting for Stock-Based Compensation*, prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options. As allowed by SFAS No. 123, the Company has elected to account for its employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting For Stock Issued To Employees*, ("APB 25"), which allows the use of the intrinsic value method. The Company's basis for electing accounting treatment under APB 25 is principally due to the satisfactory incorporation of the dilutive effect of these shares in the reported earnings per share calculation and the presence of pro forma supplemental disclosure of the estimated fair value methodology prescribed by SFAS No. 123 and SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*. The fair value of options was calculated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions for the year ended December 31, 2002 and 2003, respectively: risk free interest rate of 3.5% and 2.98%; dividend yield of 0%; weighted-average expected life of options of 5 years; and a volatility factor of 1.066 and 1.515.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and which are fully transferable. In addition, option valuation models in general require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly

different than traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a single reliable measure of the fair value of its stock options.

The following table illustrates the effect on net income (loss) and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123:

	Year ended December 31,	
	2002	2003
Net income (loss) available to common stockholders—as reported	\$ (4,230,803)	\$ 892,400
Total stock-based compensation costs included in the determination of net income (loss) available to common stockholders as reported	240,688	135,927
The stock-based employee compensation cost that would have been included in the determination of net income (loss) available to common stockholders if the fair value based method had been applied to all awards	(2,783,044)	(1,147,235)
Pro forma net income (loss)	\$ (6,773,159)	\$ (118,908)
Earnings per share		
Basic—as reported	\$ (0.53)	\$ 0.08
Diluted—as reported	\$ (0.53)	\$ 0.06
Basic and diluted—pro forma	\$ (0.84)	\$ (0.01)

Fair Value of Financial Instruments

Cash equivalents, accounts receivable, accounts payable, other accrued liabilities, and debt are stated at cost which approximates fair value due to the short-term maturity of these instruments.

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities*. FIN 46 requires that if an entity has a controlling financial interest in a variable interest entity, the assets, liabilities and results of activities of the variable interest entity should be included in the consolidated financial statements of the entity. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. Management does not believe that the adoption of FIN 46 will have a material impact on the Company's consolidated results of operations or financial position.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS No. 150 establishes standards on the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The

provisions of SFAS No. 150 are effective for financial instruments entered into or modified after May 31, 2003, and to all other instruments that exist as of the beginning of the first interim financial reporting period beginning after June 15, 2003. The changes that resulted from the issuance of SFAS No. 150 did not have a material effect on the Company's consolidated results of operations or financial position.

In December 2003, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, which codifies, revises and rescinds certain sections of SAB No. 101, *Revenue Recognition*, in order to make this interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The changes noted in SAB No. 104 did not have a material effect on the Company's consolidated results of operations, consolidated financial position or consolidated cash flows.

3. Net Income (Loss) Per Share

Computations of the net income (loss) per share are as follows:

	Year Ended December 31,	
	2002	2003
Net income (loss)	\$ (2,395,044)	\$ 1,050,032
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
Basic:		
Weighted-average shares of common stock outstanding	9,173,657	11,364,203
Weighted-average shares of common stock subject to contingency	(1,132,506)	(545,786)
Shares used in computing basic net income (loss) per share	8,041,151	10,818,417
Effect of dilutive securities:		
Weighted-average shares of common stock subject to contingency	—	545,786
Preferred stock	—	2,531,436
Stock options	—	1,410,512
Warrants	—	—
Shares used in computing diluted net income (loss) per share	8,041,151	15,306,151
Basic net income (loss) per share	\$ (0.53)	\$ 0.08
Diluted net income per share	\$ (0.53)	\$ 0.07

Diluted net loss per share is the same as basic net loss per share for the year ended December 31, 2002, as the effect of the assumed exercise of stock options and warrants, the issuance of contingently

issuable shares resulting from business combinations, and shares of common stock issuable upon the conversion of convertible preferred stock is anti-dilutive due to the Company's net loss for that period. Diluted net loss per share for the year ended December 31, 2002 excludes common stock equivalents of 4,274,225.

4. Concentration of Credit Risk and Significant Customers

Cash and accounts receivable potentially expose the Company to concentrations of credit risk. Excess cash is placed with highly rated financial institutions. The Company provides credit, in the normal course of business, to its customers. The Company generally does not require collateral or up front payments. The Company performs periodic credit evaluations of its customers and maintains allowances for potential credit losses. Customers can be denied access to services in the event of non-payment. In August 2003, the Company entered into a one-year extension of its existing services agreement with IBM under which the Company provides deployment, integration and training services to IBM's WebSphere™ customers which are billed on a time and materials basis. The agreement will expire on September 1, 2004. The current contract stipulates that IBM may cancel the contract prior to its expiration date of September 1, 2004 upon 5 days written notice. Revenue from IBM accounted for approximately 35% of total revenue for both 2002 and 2003, and accounts receivable from IBM accounted for approximately 35% and 37% of total accounts receivable as of December 31, 2002 and December 31, 2003, respectively. In the event that IBM is no longer a customer following the cancellation or termination of the Company's current agreement, the Company's revenue would decrease significantly and, as with the loss of any significant customer, management may need to counteract this type of revenue decrease by reducing headcount to align with the lower demand for the Company's services. Due to the Company's significant fixed operating expenses, the loss of sales to IBM could result in the Company's inability to generate net income for some time in the future.

5. Employee Benefit Plan

The Company has a qualified 401(k) profit sharing plan available to full-time employees who meet the plan's eligibility requirements. This defined contribution plan permits employees to make contributions up to maximum limits allowed by the Internal Revenue Code. The Company, at its discretion, matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting services. The Company made matching contributions equal to 25% of the first 6% of employee contributions totaling \$130,000 and \$143,000 during 2002 and 2003, respectively, which vest over a three year period of service. The Company's related costs for the plan were approximately \$32,000 and \$19,000 during 2002 and 2003, respectively.

6. Stockholders' Equity

Preferred Stock

The Company entered into a Convertible Preferred Stock Purchase Agreement, dated as of June 26, 2002, with 2M Technology Ventures, L.P. ("2M") under which the Company sold 1,111,000 shares of Series B Convertible Preferred Stock, par value \$0.001 per share ("Series B Preferred Stock"), to 2M for a purchase price of approximately \$0.90 per share. The Company used the proceeds from the sale of the Series B Preferred Stock to strengthen its working capital position and for other

corporate purposes. Each share of Series B Preferred Stock was initially convertible into one share of Perficient common stock at the election of the holder. The agreement also stipulated criteria for the automatic conversion of Series B preferred shares into common shares in the event that the closing price for Perficient's common stock is greater than \$3 per share for 20 consecutive days with an average trading volume greater than 50,000 shares over that same period. As of November 11, 2003, the criteria for automatic conversion were met, and accordingly, all outstanding shares of Series B preferred stock were converted to 1,111,000 shares of common stock. The Company has also issued to 2M a Warrant to purchase up to 555,500 shares of Perficient common stock in connection with this sale of Series B Preferred Stock.

2M was given the option to purchase up to an additional 1,666,500 shares of Series B Preferred Stock on the same terms as described above, however, this option was not exercised and expired on June 26, 2003.

Simultaneously with the sale of shares to 2M by the Company, 2M purchased from Steven Papermaster, Robert Anderson and Bryan Menell, 300,000, 100,000 and 100,000 shares of Perficient common stock, respectively, for \$0.75 per share. Mr. Papermaster was a member of the Company's Board of Directors at the time of the transaction and each of Messrs. Papermaster, Menell and Anderson are or had been significant holders of Perficient common stock.

In addition, the Company entered into Registration Rights Agreements with 2M pursuant to which the Company filed on October 10, 2002 a preliminary registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock issuable upon the conversion of the Series B preferred stock (and exercise of the Warrants) sold in the private placement. Each share of Series B preferred stock had voting rights equal to the number of shares of common stock into which the preferred stock could then be converted. The Series B preferred stock accrued dividends payable in our common stock at an annual rate per share equal to \$0.90 multiplied by an 8% interest rate. Accrued dividends on the Series B preferred stock totaled approximately \$41,205 as of December 31, 2002 and \$110,027 as of November 10, 2003, the date of the automatic conversion. The accrued dividends on the Series B preferred stock were forfeited under the terms of the automatic conversion.

In connection with Series B preferred stock issuance, the Company recognized a beneficial conversion charge equal to approximately \$459,000, which represents the intrinsic value of the feature using a fair market value of common stock of \$1.16 and an exchange ratio of 1.34:1, in accordance with EITF 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of EITF Issue 98-5, Accounting for Convertible Securities with Beneficial Conversion Features, or Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments*. The beneficial conversion charge was calculated by first deducting the value of the warrants issued from the proceeds to compute an effective conversion ratio. The warrants were valued at approximately \$170,000 using the Black-Scholes valuation model, an assumed volatility of 50%, a risk-free interest rate of 3.5%, a weighted-average expected life of 4 years, and a dividend rate of 0%.

The Company entered into a Convertible Preferred Stock Purchase Agreement, dated as of December 21, 2001, with a limited number of investors under which the Company sold 1,984,000 shares

of Series A Convertible Preferred Stock ("Series A") to such investors for a purchase price of \$1.00 per share, for gross proceeds of \$1,984,000. The Company used the proceeds from the sale of the Series A Preferred Stock to strengthen its working capital position and for other corporate purposes. Each share of Series A preferred stock was initially convertible into one share of Perficient common stock at the election of the holder, based on a conversion ratio as defined in the agreement, initially set at \$1 and adjusted from time to time based on certain anti-dilution provisions. The Company has also issued warrants to purchase 992,000 shares of Perficient common stock in connection with this sale of Series A preferred stock. For every two shares of Series A preferred stock purchased by an investor, such investor received a Warrant to purchase one share of Perficient common stock at an initial exercise price of \$2.00 per share of common stock. In addition, the Company entered into Registration Rights Agreements with each of the purchasers pursuant to which the Company filed a registration statement with the Securities and Exchange Commission covering the resale of the shares of common stock issuable upon the conversion of the Series A preferred stock (and exercise of the Warrants) sold in the private placement which registration statement was declared effective by the Securities and Exchange Commission on October 10, 2002. Each share of Series A preferred stock had voting rights equal to the number of shares of common stock into which the preferred stock could then be converted. The Series A preferred stock accrues dividends at an annual rate per share equal to \$1.00 multiplied by the prime rate plus 150 basis points. Accrued dividends on the Series A preferred stock totaled approximately \$121,808 as of December 31, 2002 and \$210,617 on November 10, 2003, the automatic conversion date. The company paid cash dividends totaling \$45,457 to certain holders of Series A Preferred Stock who had voluntarily elected to convert their holdings to common stock prior to the automatic conversion date. The accrued dividends on the Series A preferred stock that was not voluntarily converted prior to November 10, 2003 were forfeited under the terms of the automatic conversion.

In connection with Series A preferred stock issuance, the Company recognized a beneficial conversion charge equal to approximately \$1,180,000, which represents the intrinsic value of the feature using a fair market value of common stock of \$1.38 and an exchange ratio of 1.27:1, in accordance with EITF 98-5, *Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios*, and EITF 00-27, *Application of EITF Issue 98-5, Accounting for Convertible Securities with Beneficial Conversion Features, or Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments*. The beneficial conversion charge was calculated by first deducting the value of the warrants issued from the proceeds to compute an effective conversion ratio. The warrants were valued at approximately \$427,000 using the Black Scholes valuation model, an assumed volatility of 50%, a risk-free interest rate of 3.5%, a weighted-average expected life of 4 years, and a dividend rate of 0%.

The Company obtained access to \$825,000 of the proceeds from the Series A preferred stock issuance in January 2002. The remainder of the funds remained in escrow subject to the completion of the acquisitions of Javelin Solutions, Inc. and Primary Webworks, Inc. d/b/a Vertecon, Inc.. The Company obtained access to the remaining \$1,159,000 in May 2002.

As a result of the Series B issuance discussed above, the conversion ratio for the Series A preferred stock decreased to approximately \$0.99. Additionally, as a result of the Series B preferred stock issuance, the number of warrants issued to the Series A investors increased to 1,001,920 and the

exercise price was adjusted to approximately \$1.98 per share. A beneficial conversion charge of \$22,000 related to the change in the Series A preferred stock conversion ratio and a beneficial conversion charge of \$11,000 related to the increase in the number of common shares issuable upon the exercise of the warrants was recognized during the second quarter of 2002.

Common Stock

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

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

The Company recognized \$240,688 and \$135,927 of stock compensation expense during 2002 and 2003, respectively, as a result of options granted to employees with exercise prices below the fair market value of the underlying common stock on the date of grant, certain modifications to existing options, and the grant of options to certain non-employees. During 2002, the Company recognized deferred compensation totaling \$266,173 related to the acquisition of Javelin that is being amortized over the vesting period of the related options. Stock-compensation expense is recognized on a straight-line basis over the related vesting periods. Stock compensation expense for option grants to non-employees was determined using a Black-Scholes pricing model.

A summary of changes in common stock options during 2002 and 2003 is as follows:

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price
Options outstanding at January 1, 2002	3,290,278	\$0.02 – \$26.00	\$ 4.06
Options granted	1,997,825	\$ 0.3 – \$ 8.62	\$ 1.20
Options exercised	(37,861)	\$0.03 – \$ 0.74	\$ 0.20
Options canceled	(859,516)	\$0.03 – \$26.00	\$ 3.91
Options outstanding at December 31, 2002	4,390,726	\$0.02 – \$26.00	\$ 2.82
Options granted	2,416,373	\$0.50 – \$ 2.81	\$ 1.53
Options exercised	(264,140)	\$0.03 – \$ 1.39	\$ 0.51
Options canceled	(816,767)	\$0.03 – \$26.00	\$ 2.66
Options outstanding at December 31, 2003	5,726,192	\$0.02 – \$26.00	\$ 2.42
Options vested, December 31, 2002	2,374,956	\$0.02 – \$16.94	\$ 3.61
Options vested, December 31, 2003	2,684,572	\$0.02 – \$16.94	\$ 3.46

The following is additional information related to stock options outstanding at December 31, 2003:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Options	Weighted Average Exercise Price
\$ 0.02 – \$ 0.50	1,224,262	\$ 0.40	8.33	341,624	\$ 0.16
\$ 0.60 – \$ 1.41	1,634,600	\$ 1.15	8.34	848,418	\$ 1.14
\$ 2.28 – \$ 4.50	2,531,277	\$ 2.93	8.54	1,160,202	\$ 3.64
\$ 5.07 – \$12.97	211,375	\$ 10.26	6.35	209,650	\$ 10.28
\$13.25 – \$26.00	124,678	\$ 15.18	6.18	124,678	\$ 15.18
\$ 0.02 – \$26.00	5,726,192	\$ 2.42	8.31	2,684,572	\$ 3.46

At December 31, 2002 and 2003, the weighted-average remaining contractual life of outstanding options was 8.27 and 8.31 years, respectively. The weighted-average grant-date fair value per share of options granted during 2002 and 2003 at market prices was approximately \$0.90 and \$1.53, respectively. The weighted-average grant-date fair value per share of options granted during 2002 at below market prices was approximately \$1.31. During 2003 there were no option grants at below market prices. The weighted-average grant-date fair value per share of options granted during 2002 and 2003 at above market prices was approximately \$0.95 and \$1.15, respectively.

At December 31, 2002 and 2003, 11,500,177 and 9,065,879 shares of common stock were reserved for future issuance (at December 31, 2002 6,695,003 shares were reserved for options, 3,114,207 shares

were reserved for preferred stock, and 1,690,967 shares were reserved for warrants and at December 31, 2003 7,526,045 shares were reserved for options and 1,539,834 shares were reserved for warrants), and 2,304,276 and 1,799,852 options were available for future grants, respectively.

The following table summarizes information regarding warrants outstanding and exercisable as of December 31, 2003:

Warrants Outstanding and Exercisable	
Exercise Price	Warrants
\$21.00	25,000
\$12.00	100,000
\$8.00	3,750
\$2.00	555,500
\$1.98	855,584
\$1.98-\$21.00	1,539,834

7. Line of Credit and Long Term Debt

The Company has a line of credit facility providing for a borrowing capacity of up to \$6,000,000 or 80% of the eligible receivables, subject to certain borrowing base calculations as defined. Borrowings under this agreement, which expires December 2004, bear interest at the bank's prime rate plus 1.00% (5.00% at December 31, 2003). The Company is required to maintain certain financial covenants under this agreement. The line of credit is collateralized by substantially all the assets of the Company. The Company must pay unused line fee charges equal to 0.12%. The amount available for borrowing at December 31, 2003 was \$3,072,591.

Notes payable to related party at December 31, 2002 and 2003 consisted of a non interest-bearing note issued to the shareholders of Javelin Solutions, Inc. ("Javelin") in April 2002 in connection with the Company's acquisition of Javelin. The note provides for payments totaling \$1,500,000, of which \$875,000 remained outstanding on December 31, 2003. The Company made payments totaling \$62,500 in January 2004 and expects to make subsequent payments as follows: \$312,500 in April 2004, \$250,000 in April 2005, and \$250,000 in April 2006. For financial reporting purposes, an imputed interest rate of 7.5% was used to compute the net present value of the note payments. These notes are subordinate to the Company's line of credit.

Future minimum debt repayments as of December 31, 2003 are as follows:

	Note Payable to Related Party	
2004	\$	375,000
2005		250,000
2006		250,000
Thereafter		—
		875,000
Less amount representing interest		(71,822)
Present value of debt commitments		803,178
Less current portion		(366,920)
Long term portion	\$	436,258

8. Income Taxes

As of December 31, 2003, the Company had tax net operating loss carry forwards of approximately \$2.4 million that will begin to expire in 2019 if not utilized.

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

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

	Year Ended December 31,	
	2002	2003
Current:		
Federal	\$ —	\$ 487,332
Foreign	—	173,730
State	—	94,343
Total current	—	755,405
Deferred:		
Federal	—	—
Foreign	—	—
State	—	—
Total deferred	—	—
	\$ —	\$ 755,405

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax

purposes. Significant components of the Company's deferred taxes as of December 31, 2002 and 2003 are as follows:

	December 31,	
	2002	2003
Deferred tax liabilities:		
Deferred income	\$ (370,901)	\$ (236,179)
Total deferred tax liabilities	(370,901)	(236,179)
Deferred tax assets:		
Depreciable assets	57,128	134,648
Tax loss carryforwards	1,252,402	887,232
Bad debt	210,521	198,189
Stock compensation	145,297	4,111
Accrued liabilities and other	92,489	68,603
Total deferred tax assets	1,757,837	1,292,783
Valuation allowance for deferred tax assets	(1,386,936)	(1,056,604)
Net deferred tax assets	370,901	236,179
Net deferred taxes	\$ —	\$ —

The Company has established a valuation allowance equal to the net deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history. The valuation allowance increased by approximately \$1,152,000 during 2002 and decreased by approximately \$330,000 during 2003. The 2003 decrease is primarily due to the use of tax attributes that were not previously benefited. As of December 31, 2003, approximately \$693,000 of the valuation allowance relates to acquired entities, and as such, if realized, will reduce goodwill or other noncurrent intangible assets prior to resulting in an income tax benefit.

Undistributed earnings of the Company's foreign subsidiary are considered to be permanently reinvested and, accordingly, no provision for US federal and/or state income taxes has been provided thereon.

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

	Year Ended December 31,	
	2002	2003
Tax at statutory rate of 34%	\$ (814,315)	\$ 613,849
State taxes, net of federal benefit	(37,385)	125,494
Goodwill	414,040	207,542
Effect of foreign operations	(12,143)	75,739
Change in valuation allowance	459,685	(330,332)
Other	(9,882)	63,113
	\$ —	\$ 755,405

9. Commitments And Contingencies

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

	Operating Leases
2004	\$ 1,183,158
2005	1,236,920
2006	574,126
2007	242,639
2008	86,610
Thereafter	34,671
Total minimum lease payments	\$ 3,358,124

Rent expense for the years ended December 31, 2002 and 2003 was \$1,281,000 and \$1,322,000, respectively. The Company expects to receive sublease income of \$220,000 during 2004, \$27,000 during 2005 and 2006, and \$11,000 during 2005. The expected sublease amounts are reflected as a reduction of the lease commitments presented above.

As required by certain of the Company's office and equipment leases, the Company has established letters of credit totaling \$550,000 to serve as collateral for these certain leases. These letters of credit reduce the amount of borrowing available under the Company's line of credit.

The Company signed a new employment agreement with its CEO, effective January 1, 2004.

10. Segments of Business and Geographic Area Information

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

	Year ended December 31,	
	2002	2003
Revenue:		
United States	\$ 20,309,905	\$ 29,169,721
Canada	748,943	905,905
United Kingdom	1,391,436	116,296
Total revenue	\$ 22,450,284	\$ 30,191,922
Net income (loss):		
United States	\$ (2,506,025)	\$ 863,929
Canada	42,125	3,630
United Kingdom	68,856	182,473
Total net income (loss)	\$ (2,395,044)	\$ 1,050,032
Identifiable assets:		
United States	\$ 18,898,766	\$ 19,935,222
Canada	256,737	243,379
United Kingdom	437,600	81,382
Total identifiable assets	\$ 19,593,103	\$ 20,259,983

11. Restructuring

During 2002, the Company implemented certain workforce reductions and office closures resulting in charges of approximately \$579,000, consisting of severance pay and related benefits for former employees as well as costs associated with the closure of the London office. The Company recognized \$118,000 of costs during 2002 related to the closure of the 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, the Company reduced its workforce by a total of 30 employees, of which 17 were technology professionals and 13 were involved in selling, general administration and marketing. As of December 31, 2002, approximately \$228,000 of restructuring costs was included in other current liabilities, all of which was paid during 2003.

There was no such restructuring during 2003.

12. Balance Sheet Components

	December 31,	
	2002	2003
Accounts receivable:		
Accounts receivable	\$ 3,878,380	\$ 4,932,165
Unbilled revenue	721,241	1,225,437
Allowance for doubtful accounts	(661,248)	(622,995)
Total	\$ 3,938,373	\$ 5,534,607
Other current liabilities:		
Accrued bonus	\$ 634,286	\$ 1,150,614
Accrued restructuring and severance costs	228,145	—
Accrued vacation	241,857	220,443
Other payroll liabilities	268,630	30,934
Sales and use taxes	45,792	85,187
Accrued income taxes	136,486	425,977
Other accrued expenses	455,344	484,524
Software cost of sales	—	646,085
Accrued medical claims	17,705	5,000
Deferred revenue	276,188	262,107
Total	\$ 2,304,433	\$ 3,310,872

13. Related Party Transaction

During 2002, the Company executed an amendment to a non-compete agreement with a former employee, and as consideration, the Company required this individual to sell a portion of his holdings totaling 400,000 shares of Perficient common stock. With the consent of the Company, John T. McDonald, the Chairman and Chief Executive Officer of the Company, purchased 133,333 shares from this individual at a price of \$0.375 per share.

14. Business Combinations

On April 26, 2002, the Company consummated the acquisition of Primary Webworks, Inc. d/b/a Vertecon, Inc. ("Vertecon"), a Missouri corporation, through the merger of Vertecon with and into a wholly-owned subsidiary, Perficient Vertecon, Inc., a Delaware corporation. Perficient Vertecon, Inc. is the surviving corporation to the merger. Vertecon was a St. Louis based eBusiness Solutions provider that used advanced technology solutions to create competitive business advantages for its clients. Vertecon provided its customers with comprehensive solutions across the e-Business life cycle, including strategy, architecture, design, development and implementation services. The Company acquired Vertecon for an aggregate purchase price of approximately \$3,247,000, subject to certain post-closing adjustments. The purchase price consisted of 1,994,586 shares of Perficient common stock, of which approximately 551,985 shares were held in escrow until April 2003 at which time 44,787 shares of common stock were forfeited and canceled in accordance with the escrow agreement, the assumption of outstanding Vertecon options and direct acquisition costs. The common stock issued in the Vertecon

acquisition was valued at \$1.44 per share, which represents the average close price of the Company's common stock at the announcement of the acquisition in October 2001. The acquisition of Vertecon was consummated in order to increase and diversify Perficient's revenue base, add significant and longstanding customer relationships, provide geographic expansion into the St. Louis market, increase the number of qualified information technology consultants, and add experienced members of management among other factors. The majority of the excess cost over fair value of assets is attributed to the at-will workforce and, accordingly, is recorded as goodwill.

On April 26, 2002, the Company consummated the acquisition of Javelin Solutions, Inc. ("Javelin"), a Minnesota "S" corporation, through the merger of Javelin with and into a wholly-owned subsidiary, Perficient Javelin, Inc., a Delaware corporation. Perficient Javelin, Inc. is the surviving corporation to the merger. Javelin Solutions, Inc. was a Minneapolis-based professional services firm providing eBusiness strategy consulting, application design, implementation and integration services to large and major midsize companies. Javelin helped its clients define eBusiness strategies to improve their competitive position and business efficiency and would then design, architect, develop and implement solutions to execute those strategies. Javelin would seek to solve complex eBusiness challenges and create solutions that provided its clients with significant competitive advantages. Javelin offered a full range of integrated services consisting of strategic consulting, design of information architectures, and the creation, customization and implementation of software applications. Javelin also provided consulting services to help clients address security issues and web hosting decisions. As part of these services, Javelin provided application management services for its clients. The Company acquired Javelin for an aggregate purchase price of approximately \$5,951,000, subject to certain post-closing adjustments. The purchase price consists of 2,216,255 shares of Perficient common stock, of which approximately 1,108,127 shares were held in escrow until released in April 2003, \$1,500,000 in non-interest bearing promissory notes, the assumption of outstanding Javelin options and direct acquisition costs. The notes issued consist of \$1,000,000 that are payable in four equal annual installments, and \$500,000 (all unpaid installments of these notes issued to certain employee shareholders are subject to forfeiture upon the termination of such employee shareholder for any reason during the two year period following the closing) that are payable in eight quarterly installments. The common stock issued in the Javelin acquisition was valued at \$1.70 per share, which represents the average close price of the Company's common stock at the announcement of the acquisition in October 2001. The note payable was discounted using an assumed interest rate of 7.5%. The acquisition of Javelin was consummated in order to increase and diversify Perficient's revenue base, add significant and longstanding customer relationships, provide geographic expansion into the Minneapolis market, increase the number of qualified information technology consultants, and add experienced members of management among other factors. The majority of the excess cost over fair value of assets is attributed to the at-will workforce and, accordingly, is recorded as goodwill.

The aggregate purchase price for the acquisitions of Vertecon and Javelin is as follows:

	Vertecon	Javelin
Common stock	\$ 2,874,997	\$ 3,777,127
Note (less imputed interest of \$210,000)	—	1,292,500
Assumption of existing option plan	16,053	549,909
Transaction broker fee	105,500	131,000
Direct acquisition costs	250,479	200,249
	\$ 3,247,029	\$ 5,950,785

The allocation of the purchase price for the acquisitions of Vertecon and Javelin is as follows:

	Vertecon	Javelin
Cash	\$ —	\$ 178,950
Accounts receivable, net	647,522	1,568,958
Other current assets	26,767	55,794
Other long term assets	53,323	—
Fixed assets	472,267	534,715
Intangibles	4,860,087	5,256,373
Accounts payable	(322,451)	(138,765)
Other current liabilities	(647,029)	(687,219)
Line of credit	(795,400)	(600,000)
Note and interest payable to Perficient	(814,487)	—
Capital lease obligation	(193,288)	(484,194)
Accrued severance	(40,282)	—
Deferred stock compensation	—	266,173
	\$ 3,247,029	\$ 5,950,785

Intangible assets recorded in connection with the acquisitions of Vertecon and Javelin are as follows:

	Vertecon	Javelin
Customer relationships	\$ 250,000	\$ 250,000
Employment and non-compete agreements	100,000	100,000
Goodwill	4,510,087	4,906,373
	\$ 4,860,087	\$ 5,256,373

The customer relationship intangibles are being amortized over a five-year life and the employment and non-compete agreement intangibles are being amortized over a two-year life.

The acquisitions of Vertecon and Javelin were recorded under the purchase method of accounting. Accordingly, the results of operations of Vertecon and Javelin have been included with those of the Company for periods subsequent to April 26, 2002.

In connection with the acquisitions of Vertecon and Javelin, we paid a broker fee to WWC Capital Group, LLC of approximately \$236,500. Michael J. Cromwell, III, a director of Perficient at the time of the transaction, is a partner of WWC Capital Group, LLC.

15. Subsequent Event (unaudited)

During the period January 1, 2004 through March 29, 2004 the Company issued 984,750 shares of common stock pursuant to the exercise of warrants, with exercise prices ranging from \$1.98 to \$2.00, that have been previously issued in connection in connection with its Series A Preferred Stock and Series B Preferred Stock financings.

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3039 Cornwallis Road
RTP, NC 27709

Amendment Letter

August 28, 2003

Perficient, Inc.
7600 B N. Capital of Texas Highway
Austin, TX 78731

Attention: Jeff Davis

Dear Mr. Davis,

This letter agreement serves as Amendment No. 03 ("Amendment") to Statement of Work ("SOW") #4900OP0312 to Customer Solutions Agreement #4900CS0965 dated 8/17/2000 (hereinafter called "Agreement"), between International Business Machines Corporation ("Buyer") and Perficient, Inc. ("Supplier"). The purpose of this Amendment is to: (a) extend the SOW for the period of one year beginning September 1, 2003 and ending September 1, 2004, (b) modify the terms of the SOW for removal from Exhibit VIII of Supplier personnel, (c) add the ability to change the guaranteed utilization rate of Supplier personnel as defined in Exhibit VIII of the SOW with five (5) days written notice (d) modify IBM's right to terminate the SOW. The effective date of this Amendment No. 03 is September 1, 2003.

NOW THEREFORE, the parties agree to modify the Agreement and SOW as follows:

1. Extend the SOW for the period of one year

Section 7.1 of the SOW is amended by deleting the first sentence of Section 7.1 in its entirety and replacing it with the following:

"The term of this SOW will commence on October 15, 2000 ("Commencement Date") and terminate on September 1, 2004 (the "Term"), subject to the provisions of Section 3.0 of the Agreement as amended. "

2. Modify the terms of removal of Supplier personnel from Exhibit VIII of the SOW and add the ability to change the guaranteed utilization rate of Supplier personnel as defined in Exhibit VIII of the SOW with five (5) days written notice

Replace Section 6.1 (iii) of the SOW with the following:

Buyer may from time to time request, upon five (5) days prior written notice to Supplier, that Supplier remove any number of Supplier Personnel from performing Services under this SOW and remove such Supplier Personnel from Exhibit VIII, and Supplier shall comply with such request. Buyer may also upon five (5) days prior written notice to Supplier change the utilization guarantee to 0% for any and or all of the Supplier Personnel listed on Exhibit VIII with a utilization guarantee greater than 0%. These changes can be made at the request of the Buyer with, or without, Cause.

3. Modify IBM's right to terminate the SOW

Replace Section 11.1 of the SOW with the following:

Section 3.3 of Agreement 4900CS0965 is deleted for the purposes of this SOW and replaced with the following: Buyer may terminate this SOW immediately with Cause or without Cause on five (5) days prior written notice. Upon termination, in accordance with Buyer's written direction, Supplier will immediately, (i) cease work or fulfill existing work authorizations on Buyer's discretion; (ii) prepare and submit to buyer an itemization of all completed and partially completed Deliverables and Services (iii) deliver to Buyer, Deliverables satisfactorily completed up to the date of termination at the agreed upon Prices in the relevant SOW; and (iv) deliver upon request any work in progress. Buyer will compensate Supplier for the actual and reasonable expenses incurred by Supplier for work in progress up to and including the date of termination, as outlined in Exhibit VII and make all Utilization Guarantee Payments, if any, as required by Section 7 on a prorated basis.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 03 to be executed by their respective authorized representatives.

The Parties acknowledge that they have read this Amendment, understand it, and agree to be bound by its terms and conditions. Further, they agree that this Amendment and the subject SOW, Amendments 1 and 2 and the Agreement are the complete and exclusive statement of the agreement between the parties, superseding all proposals or other prior agreement, oral or written, and all other communications between the parties relating to this subject.

Please have your authorized representative indicate acceptance thereof by signing both copies of the Amendment and returning one copy to the attention of Shannon Tucker at fax 1(607)429-4649.

ACCEPTED AND AGREED TO:

International Business Machines Corporation

By:

Print Name

Title

Date

ACCEPTED AND AGREED TO:

Perficient, Inc.

By:

Print Name

Title

Date

QuickLinks

[Exhibit 10.18](#)

[Amendment Letter](#)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT dated effective as of January 1, 2004, between Perficient, Inc. a Delaware corporation (the "Company"), and John T. McDonald ("Employee").

WITNESSETH:

WHEREAS, the Company desires that Employee continue to be employed by it and render services to it, and Employee is willing to be so employed and to render such services to the Company, all upon the terms and subject to the conditions contained herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. **EMPLOYMENT.** Subject to and upon the terms and conditions contained in this Agreement, the Company hereby agrees to continue to employ Employee and Employee agrees to continue in the employ of the Company, for the period set forth in Paragraph 2 hereof, to render to the Company, its affiliates and/or subsidiaries the services described in Paragraph 3 hereof.

2. **TERM.** Employee's term of employment under this Agreement shall be two years, commencing as of the date hereof and continuing through and including December 31, 2005, unless extended in writing as provided below or earlier terminated pursuant to the terms and conditions set forth herein (the "Employment Term").

3. **DUTIES.**

(a) Employee shall serve as Chairman and/or Chief Executive Officer of the Company. Employee shall perform all duties and services incident to the positions held by him.

(b) Employee agrees to abide by all By-laws and policies of the Company promulgated from time to time by the Company.

4. **BEST EFFORTS.** Employee agrees to devote his best efforts, energies and skill to the discharge of the duties and responsibilities attributable to his position.

5. **COMPENSATION.**

(a) As compensation for his services and covenants hereunder, Employee shall receive a salary ("Salary"), payable pursuant to the Company's normal payroll procedures in place from time to time, at the rate of \$225,000 per annum, less all necessary and required federal, state and local payroll deductions. Employee shall be entitled to have his salary increased to \$250,000 per annum, less all necessary and required federal, state and local payroll deductions, if the Company's net revenue per quarter equals or exceeds ten million dollars at any time following January 1, 2004. Employee shall be entitled to receive additional salary increases as may be determined from time to time by the Board of Directors of the Company.

(b) Employee shall be entitled to a bonus equal to one-hundred percent (100%) of his Salary at plan, less all necessary and required federal, state and local payroll deductions to be paid on January 15 following the year the bonus is accrued. The criteria for determining the amount of Employee's bonus, and the conditions to be satisfied for the receipt thereof, shall be determined in a manner consistent with that used to date and agreed upon by the Board of Directors of the Company and Employee.

(c) In addition, Employee shall be entitled to receive such other bonuses as may be determined from time to time by the Board of Directors of the Company and shall be eligible to receive stock options entitling Employee to acquire shares of Common Stock under the Company's 1999 Stock Option/Stock Issuance Plan, and successor plans, pursuant to the policies of the

Company from time to time to generally make available stock options, to executive employees. As further consideration for the agreements and covenants hereunder, the Company hereby grants to Employee an option to purchase 150,000 shares of Common Stock of the Company, exercisable at the closing price of the Common Stock as of the date hereof, for each year of service hereunder (both such grants to be made on the date hereof). Notwithstanding anything to the contrary in any stock option agreement between Employee and the Company, all stock options granted to Employee shall continue to vest in accordance with their schedule and shall not terminate if Employee ceases to be an employee of the Company as long as Employee continues to serve as an officer, director or consultant of the Company.

6. **EXPENSES.** Employee shall be reimbursed for, and entitled to advances (subject to repayment to the Company if not actually incurred by Employee) with respect to those business expenses incurred by him which are reasonable and necessary for Employee to perform his duties under this Agreement in accordance with policies established from time to time by the Company. Employee shall receive reimbursement for other expenses consistent with past practice and as approved by the Compensation Committee of the Board of Directors.

7. **EMPLOYEE BENEFITS.**

(a) During the Employment Term and any severance period hereunder, Employee shall be entitled to such insurance, disability and health and medical benefits and be entitled to participate in such retirement plans or programs as are from time to time generally made available to executive employees of the Company pursuant to the policies of the Company; PROVIDED THAT Employee shall be required to comply with the conditions attendant to coverage by such plans and shall comply with and be entitled to benefits only in accordance with the terms and conditions of such plans.

The Company may withhold from any benefits payable to Employee all federal, state, local and other taxes and amounts as shall be permitted or required to be withheld pursuant to any applicable law, rule or regulation.

(b) Employee shall be entitled to vacation in accordance with the Company's policy in effect for executive staff, which shall be taken at such time or times as shall be mutually agreed upon with the Company.

8. DEATH AND DISABILITY.

(a) The Employment Term shall terminate on the date of Employee's death, in which event Employee's Salary, reimbursable expenses and benefits owing to Employee through the date of Employee's death shall be paid to his estate, plus a lump sum equal to two year's Salary. Employee's estate will not be entitled to any other compensation upon termination of this Agreement pursuant to this subparagraph 8(a).

(b) The Employment term shall terminate upon Employee's Disability. For purposes of this Agreement, "Disability" shall mean a physical or mental disability or infirmity that prevents the material performance by Employee of his duties hereunder lasting for a continuous period of six months or longer. The reasoned and good faith judgment of the Company's Board of Directors as to Disability shall be based on such competent medical evidence as shall be presented to it by Employee or by any physician or group of physicians or other competent medical experts employed by Employee or the Company to advise the Company's Board of Directors. In case of such termination, Employee shall be entitled to receive his Salary, reimbursable expenses and benefits owing to Employee through the date of termination. In addition, the Company shall pay to Employee, within 60 days of the date of Employee's termination, in a lump-sum, an amount equal to Employee's then annual Salary. Employee will not be entitled to any other compensation upon termination of his employment pursuant to this subparagraph 8(b).

9. TERMINATION.

(a) The Company shall have the right, upon delivery of written notice to the Employee, to terminate the Employee's employment hereunder prior to the expiration of the Employment Term (i) pursuant to a Termination for Cause or (ii) pursuant to a Without Cause Termination (all as defined below). The Employee shall have the right, upon delivery of written notice to the Company, to terminate his employment hereunder prior to the expiration of the Employment Term by providing the Company with not less than 30 days prior written notice.

(b) In the event that the Company terminates the Employee's employment pursuant to a Without Cause Termination (other than in connection with or following a Change in Control (as defined below)), the Company shall make a payment to the Employee in an amount equal to two year's Salary, payable in installments through regular payroll, and shall pay Employee his reimbursable expenses and benefits owing to Employee through the day on which Employee is terminated. Employee shall also be entitled to benefits during such period pursuant to Section 7 hereof and the use of his office and administrative assistant. No other payments shall be made, or benefits provided, by the Company under this Agreement in the event of a Without Cause Termination. In the event of a Without Cause termination, any and all options, agreements or rights to purchase securities of the Company granted to the Employee shall vest in their entirety, regardless of the satisfaction of any conditions contained therein.

(c) In the event that the Company terminates the Employee's employment hereunder due to a Termination for Cause or the Employee terminates employment with the Company, the Company shall be released from any and all further obligations under this Agreement, except that the Company shall be obligated to pay Employee his Salary, reimbursable expenses and benefits owing to Employee through the day on which Employee is terminated. Employee will not be entitled to any other compensation upon termination of this Agreement pursuant to this Paragraph 9(c).

(d) For purposes of this Agreement, the following terms have the following meanings:

(i) The term "Termination for Cause" means, to the maximum extent permitted by applicable law, a termination of the Employee's employment by the Company attributed to (a) the repeated willful failure of Employee substantially to perform his duties hereunder (other than any such failure due to physical or mental illness) that has not been cured reasonably promptly after a written demand for substantial performance is delivered to Employee by the Company's Board of Directors, which demand identifies the manner in which the Company's Board of Directors believes that Employee has not substantially performed his duties hereunder; (b) conviction of, or entering a plea of *nolo contendere* to, a crime that constitutes a felony; (c) Employee's engaging in conduct that is intentional or grossly negligent that results in material injury to the Company; or (d) the material breach by Employee of any written covenant or agreement with the Company under this Agreement or otherwise, including, but not limited to, an agreement not to disclose any information pertaining to the Company or not to compete with the Company, including (without limitation) the covenants and agreements contained in paragraph 11 hereof.

(ii) The term "Without Cause Termination" means a termination of the Employee's employment by the Company other than due to (a) a Termination for Cause, (b) Disability, (c) the Employee's death, or (d) the expiration of this Agreement.

10. CHANGE IN CONTROL—TERMINATION OF EMPLOYMENT AND COMPENSATION IN EVENT OF TERMINATION.

(a) After a Change in Control (as defined below) of the Company has occurred, if the Company (or any successor thereto) terminates Employee's employment with the Company,

pursuant to a Without Cause Termination or a With Cause Termination, or if the Employee terminates his employment voluntarily, at any time after the Change in Control, Employee shall be entitled to receive a lump-sum payment (the "Termination Compensation"), in cash, on the Termination Date, in an amount of two year's Salary and target bonus. In addition, and notwithstanding anything contained in any other agreement, including any stock option agreement between the Company and the Employee, immediately prior to a Change of Control, any and all options, agreements or rights to purchase securities of the Company granted to the Employee shall vest in their entirety, regardless of the satisfaction of any conditions contained therein. In addition, for a period of two years following such Termination Date, Employee shall also be entitled to benefits pursuant to Section 7 hereof and the use of his office and administrative assistant.

(b) For purposes hereof, a "Change In Control" shall be deemed to have occurred if: (i) any "person" or "group" (as such terms are used in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Act")) becomes a "beneficial owner" (as such term is used in Rule 13d-3 promulgated under the Act), after the date hereof, directly or indirectly, of securities of the Company representing 50% or more of the combined voting power of the Company's then outstanding securities; (ii) a change in "control" of the Company (as the term "control" is defined in Rule 12b-2 under the act or any successor rule promulgated under the Act) shall have occurred; (iii) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; or (iv) the stockholders of the Company approve a merger or consolidation of the Company with any other company, other than a merger or consolidation which would result in the combined voting power of the Company's voting securities outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation. Notwithstanding the foregoing, any transaction involving a leveraged buyout or other acquisition of the Company which would otherwise constitute a Change in Control, in which Employee participates in the surviving or successor entity (other than solely as an employee or consultant), shall not constitute a Change in Control.

11. DISCLOSURE OF TRADE SECRETS AND OTHER PROPRIETARY INFORMATION; RESTRICTIVE COVENANTS.

(a) Employee acknowledges that he is bound by the terms of the Company's Confidentiality and Intellectual Property Agreement.

(b) Employee will not, during the term of this Agreement, directly or indirectly, as an employee, employer, consultant, agent, principal, partner, manager, stockholder, officer, director, or in any other individual or representative capacity, engage in or participate in any business that is competitive with the business of the Company. The ownership by Employee of 5% or less of the issued and outstanding shares of a class of securities which is traded on a national securities exchange or in the over-the-counter market, shall not cause Employee to be deemed a shareholder under this subparagraph 11(b) or constitute a breach of this subparagraph 11(b). Notwithstanding the foregoing, the ownership by Beekman Ventures, Inc. or any affiliate of Beekman Ventures, Inc. or any stockholder, officer, director or agent of Beekman Ventures, Inc. ("BV") in connection with the activities of BV as a venture capital firm, and the services provided by Employee to BV in connection with, any investment in any private or public company shall not be deemed to be a breach of any of the provisions of this Agreement and of this paragraph (b) of this Agreement.

(c) Employee will not, during the term of this Agreement and for a period of 24 months thereafter, directly or indirectly, work as an employee, employer, consultant, agent, principal, partner, manager, stockholder, officer, director, or in any other individual or representative

capacity for any person or entity who or which was competitive with the business of providing virtual professional services organizations to Internet service corporations during the term of Employee's employment with the Company. The ownership by Employee of 5% or less of the issued and outstanding shares of a class of securities which is traded on a national securities exchange or in the over-the-counter market, shall not cause Employee to be deemed a shareholder under this subparagraph 11(c) or constitute a breach of this subparagraph 11(c). Employee's participation as a director or advisor in a company or other business enterprise in which BV has an interest shall not be deemed to be a violation of this Agreement.

(d) Employee will not, during the term of this Agreement and for a period of 24 months thereafter, on his behalf or on behalf of any other business enterprise, directly or indirectly, under any circumstance other than at the direction and for the benefit of the Company, (i) solicit for employment any person employed by the Company or any of its subsidiaries, or (ii) call on, solicit, or take away any person or entity who or which was a customer of the Company or any of its subsidiaries or affiliates during Employee's employment with the Company for a business that is competitive with the business of providing virtual professional services organizations to Internet service corporations. Employee's participation as a director or advisor in a company or other business enterprise in which BV has an interest shall not be deemed to be a violation of this Agreement.

(e) It is expressly agreed by Employee that the nature and scope of each of the provisions set forth above in this Paragraph 11 are reasonable and necessary. If, for any reason, any aspect of the above provisions as it applies to Employee is determined by a court of competent jurisdiction to be unreasonable or unenforceable, the provisions shall only be modified to the minimum extent required to make the provisions reasonable and/or enforceable, as the case may be. Employee acknowledges and agrees that his services are of unique character and expressly grants to the Company or any subsidiary or affiliate of the Company or any successor of any of them, the right to enforce the above provisions through the use of all remedies available at law or in equity, including, but not limited to, injunctive relief.

(f) This Paragraph 11 and Paragraphs 12 and 13 hereof (and Paragraphs 14 through 19 hereof as they may apply to such Paragraphs) shall survive the expiration or termination of this Agreement for any reason.

12. COMPANY PROPERTY.

(a) Any patents, inventions, discoveries, applications or processes designed, devised, planned, applied, created, discovered or invented by Employee in the course of Employee's employment under this Agreement and which pertain to any aspect of the Company's or its subsidiaries' or affiliates' business as described above shall be the sole and absolute property of the Company, and Employee shall promptly report the same to the Company and promptly execute any and all documents that may from time to time reasonably be requested by the Company to assure the Company the full and complete ownership thereof.

(b) All records, files, lists, including computer generated lists, drawings, documents, equipment and similar items relating to the Company's business which Employee shall prepare or receive from the Company shall remain the Company's sole and exclusive property. Upon termination of this Agreement, Employee shall promptly return to the Company all property of the Company in his possession. Employee further represents that he will not copy or cause to be copied, print out or cause to be printed out any software, documents or other materials originating with or belonging to the Company. Employee additionally represents that, upon termination of his employment with the Company, he will not retain in his possession any such software, documents or other materials.

13. **EQUITABLE RELIEF.** It is mutually understood and agreed that Employee's services are special, unique, unusual, extraordinary and of an intellectual character giving them a peculiar value, the loss of which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, in the event of any breach of this Agreement by Employee, including, but not limited to, the breach of any of the provisions of Paragraphs 11 or 12 hereof, the Company shall be entitled to equitable relief by way of injunction or otherwise in addition to any damages which the Company may be entitled to recover. In addition, the Company shall be entitled to reimbursement from Employee, upon request, of any and all reasonable attorneys' fees and expenses incurred by it in enforcing any term or provision of this Agreement.

14. **CONSENT TO TEXAS JURISDICTION AND VENUE.** The Employee hereby consents and agrees that state courts located in Travis County, Texas and the United States District Court for the Western District of Texas each shall have personal jurisdiction and proper venue with respect to any dispute between the Employee and the Company. In any dispute with the Company, the Employee will not raise, and hereby expressly waives, any objection or defense to any such jurisdiction as an inconvenient forum.

15. **NOTICE.** Except as otherwise expressly provided, any notice, request, demand or other communication permitted or required to be given under this Agreement shall be in writing, shall be sent by one of the following means to the Employee at his address set forth on the signature page of this Agreement and to the Company at its address set forth on the signature page of this Agreement, Attention: President (or to such other address as shall be designated hereunder by notice to the other parties and persons receiving copies, effective upon actual receipt), and shall be deemed conclusively to have been given: (a) on the first business day following the day timely deposited with Federal Express (or other equivalent national overnight courier) or United States Express Mail, with the cost of delivery prepaid or for the account of the sender; (b) on the fifth business day following the day duly sent by certified or registered United States mail, postage prepaid and return receipt requested; or (c) when otherwise actually received by the addressee on a business day (or on the next business day if received after the close of normal business hours or on any non-business day).

16. **INTERPRETATION; HEADINGS.** The parties acknowledge and agree that the terms and provisions of this Agreement have been negotiated, shall be construed fairly as to all parties hereto, and shall not be construed in favor of or against any party. The section headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

17. **SUCCESSORS AND ASSIGNS; ASSIGNMENT; INTENDED BENEFICIARIES.** Neither this Agreement, nor any of Employee's rights, powers, duties or obligations hereunder, may be assigned by Employee. This Agreement shall be binding upon and inure to the benefit of Employee and his heirs and legal representatives and the Company and its successors. Successors of the Company shall include, without limitation, any corporation or corporations acquiring, directly or indirectly, all or substantially all of the assets of the Company, whether by merger, consolidation, purchase, lease or otherwise, and such successor shall thereafter be deemed "the Company" for the purpose hereof.

18. **NO WAIVER BY ACTION.** Any waiver or consent from the Company respecting any term or provision of this Agreement or any other aspect of the Employee's conduct or employment shall be effective only in the specific instance and for the specific purpose for which given and shall not be deemed, regardless of frequency given, to be a further or continuing waiver or consent. The failure or delay of the Company at any time or times to require performance of, or to exercise any of its powers, rights or remedies with respect to, any term or provision of this Agreement or any other aspect of the Employee's conduct or employment in no manner (except as otherwise expressly provided herein) shall affect the Company's right at a later time to enforce any such term or provision.

19. COUNTERPARTS; TEXAS GOVERNING LAW; AMENDMENTS; ENTIRE AGREEMENT. This Agreement may be executed in two counterpart copies, each of which may be executed by one of the parties hereto, but all of which, when taken together, shall constitute a single agreement binding upon all of the parties hereto. This Agreement and all other aspects of the Employee's employment shall be governed by and construed in accordance with the applicable laws pertaining in the State of Texas (other than those that would defer to the substantive laws of another jurisdiction). Each and every modification and amendment of this Agreement shall be in writing and signed by the parties hereto, and any waiver of, or consent to any departure from, any term or provision of this Agreement shall be in writing and signed by each affected party hereto. This Agreement contains the entire agreement of the parties and supersedes all prior representations, agreements and understandings, oral or otherwise, between the parties with respect to the matters contained herein.

[Signature page follows.]

IN WITNESS WHEREOF, the parties have executed this Employment Agreement as of the date first above written.

PERFICIENT, INC.

By:

Name: David Lundeen
Title: Director, Chairman of the Compensation Committee

John T. McDonald, Individually

QuickLinks

[Exhibit 10.19](#)

[EMPLOYMENT AGREEMENT](#)

[QuickLinks](#) -- Click here to rapidly navigate through this document

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-44854) pertaining to the Perficient, Inc. 401(k) Employee Savings Plan, the Registration Statements (Form S-8 No. 333-42626 and Form S-8 No. 333-75666) pertaining to the Perficient, Inc. 1999 Stock Option/Stock Issuance Plan and the Registration Statements (Form S-3 No. 333-42624 and Form S-3 No. 333-89076) of our report dated January 9, 2004, with respect to the consolidated financial statements of Perficient, Inc. and Subsidiaries included in the Annual Report (Form 10-KSB) for the year ended December 31, 2003.

/s/ Ernst & Young LLP

Austin, Texas
March 26, 2004

QuickLinks

[Exhibit 23.1](#)

[CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS](#)

Certification of Annual Report

I, John T. McDonald, certify that:

1. I have reviewed this annual report on Form 10-KSB of Perficient, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this annual report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [omitted per SEC Release No. 33-8238] for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) [Omitted per SEC Release No. 33-8238]
 - c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 30, 2004

/s/ JOHN T. MCDONALD

John T. McDonald
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.1 (continued)

Certification of Annual Report

I, Michael D. Hill, certify that:

1. I have reviewed this annual report on Form 10-KSB of Perficient, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this annual report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) [omitted per SEC Release No. 33-8238] for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) [Omitted per SEC Release No. 33-8238]

e) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: March 30, 2004

/s/ MICHAEL D. HILL

Michael D. Hill
Chief Financial Officer
(Principal Accounting Officer)

QuickLinks

[Exhibit 31.1](#)
[Certification of Annual Report](#)

[Exhibit 31.1 \(continued\)](#)
[Certification of Annual Report](#)

**CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. §1350**

In connection with the accompanying report on Form 10-KSB for the period ended December 31, 2003 and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John T. McDonald, Chief Executive Officer of Perficient, Inc. (the "Company"), hereby certify that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN T. MCDONALD

John T. McDonald
Chief Executive Officer
March 30, 2004

In connection with the accompanying report on Form 10-KSB for the period ended December 31, 2003 and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael D. Hill, Chief Financial Officer of Perficient, Inc. (the "Company"), hereby certify that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL D. HILL

Michael D. Hill
Chief Financial Officer
March 30, 2004

QuickLinks

[Exhibit 32.1](#)

[CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. §1350](#)

LOAN AND SECURITY AGREEMENT

by and between
SILICON VALLEY BANK
3003 Tasman Drive
Santa Clara, CA 95054
Attn: Loan Services
(408) 496-2429

and

PERFICIENT, INC., and
PERFICIENT CANADA, INC.,
1120 S. Capital of Texas Highway
Building 3, Suite 220
Austin, Texas 78746

Dated as of the Effective Date
(as hereinafter defined)

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This LOAN AND SECURITY AGREEMENT (this "Agreement") dated as of the Effective Date between SILICON VALLEY BANK, a California chartered bank ("Bank"), with its principal place of business at 3003 Tasman Drive, Santa Clara, California 95054, and with a loan production office located at 9020 Capital of Texas Highway, North, Building 1, Suite 350, Austin, Texas, 78759 and PERFICIENT, INC. and PERFICIENT CANADA, INC., jointly and severally (collectively, the "Borrower"), each with its principal place of business at the location set forth on the Cover Page of this Agreement, provides the terms on which Bank will lend to Borrower and Borrower will repay Bank. The parties agree as follows:

1 ACCOUNTING AND OTHER TERMS.

Accounting terms not defined in this Agreement will be construed following GAAP. Calculations and determinations must be made following GAAP. The term "financial statements" includes the notes and schedules. The terms "including" and "includes" always mean "including (or includes) without limitation" in this or any Loan Document.

2 LOAN AND TERMS OF PAYMENT.

2.1 Promise to Pay. Borrower promises to pay Bank the unpaid principal amount of all Credit Extensions and interest on the unpaid principal amount of the Credit Extensions.

2.1.1 Revolving Advances.

(a) Bank will make Advances not exceeding (i) the lesser of (A) the Committed Revolving Line or (B) the Borrowing Base, minus (ii) the amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) Amounts borrowed under this Section may be repaid and reborrowed during the term of this Agreement.

(b) To obtain an Advance, Borrower must notify Bank by facsimile or telephone by 3:00 p.m. Pacific time on the Business Day the Advance is to be made. Borrower must promptly confirm the notification by delivering to Bank the Payment/Advance Form attached as Exhibit B (a "Payment/Advance Form"). Bank will credit Advances to Borrower's deposit account. Bank may make Advances under this Agreement based on instructions from a Responsible Officer or his or her designee or without instructions if the Advances are necessary to meet Obligations which have become due. Bank may rely on any telephone notice given by a person whom Bank believes is a Responsible Officer or designee. Borrower will indemnify Bank for any loss Bank suffers due to such reliance.

(c) The Committed Revolving Line terminates on the Revolving Maturity Date, when all Advances are immediately payable.

(d) Bank's obligation to lend the undisbursed portion of the Obligations will terminate if, in Bank's sole discretion, there has been a material adverse change in the general affairs, management, results of operation, condition (financial or otherwise) or the prospect of repayment of the Obligations, or there has been any material adverse deviation by Borrower from the most recent business plan of Borrower presented to and accepted by Bank prior to the execution of this Agreement.

2.1.2 Letters of Credit.

(a) Bank has issued, as set forth on Schedule 2.1.2, and may in the future issue letters of credit (each a "Letter of Credit" and collectively, the "Letters of Credit") for Borrower's account not exceeding (i) the lesser of the Committed Revolving Line or the Borrowing Base minus (ii) the outstanding principal balance of the Advances; however the aggregate face amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit) may not

exceed \$750,000. Each Letter of Credit will have an expiry date of no later than 180 days after the Revolving Maturity Date but Borrower's reimbursement obligation will be secured by cash on terms acceptable to Bank at any time after the Revolving Maturity Date if the term of this Agreement is not extended by Bank. Borrower agrees to execute any further documentation in connection with the Letters of Credit as Bank may reasonably request.

(b) Pursuant to the terms of that certain Amended and Restated Loan and Security Agreement dated June 30, 2000, as amended from time to time, Bank has issued the Letters of Credit identified on Schedule 2.1.2, attached hereto, for the benefit of Borrower (the "Outstanding Letters of Credit"). The outstanding Letters of Credit shall be governed by this Agreement.

2.2 Overadvances. If Borrower's Obligations under Section 2.1.1 and 2.1.2 exceed the lesser of either (a) the Committed Revolving Line or (b) the Borrowing Base, Borrower must immediately pay in cash to Bank the excess.

2.3 Interest Rate; Payments.

2.3.1 In General.

(a) *Spreading of Interest.* Due to irregular periodic balances of principal, the variable nature of the interest rate, or prepayment, the total interest that will accrue under this Agreement cannot be determined in advance. Bank does not intend to contract for, charge or receive more than the Maximum Lawful Rate or Maximum Lawful Amount permitted by applicable state or federal law, and to prevent such an occurrence Bank and Borrower agree that all amounts of interest, whenever contracted for, charged or received by Bank, with respect to the Obligations, will be spread, prorated or allocated over the full period of time the Obligations are outstanding, including the period of any renewal or extension thereof. If the maturity of the Obligations is accelerated for any reason whether as a result of an Event of Default or otherwise prior to the full stated term, the total amount of interest contracted for, charged or received to the time of such demand shall be spread, prorated or allocated along with any interest thereafter accruing over the full period of time that the Obligations thereafter remain unpaid for the purpose of determining if such interest exceeds the Maximum Lawful Amount.

(b) *Excess Interest.* At maturity (whether by acceleration or otherwise) or on earlier final payment of the Obligations, Bank will compute the total amount of interest that has been contracted for, charged or received by Bank or payable by Borrower hereunder and compare such amount to the Maximum Lawful Amount that could have been contracted for, charged or received by Bank. If such computation reflects that the total amount of interest that has been contracted for, charged or received by Bank or payable by Borrower exceeds the Maximum Lawful Amount, then Bank shall apply such excess to the reduction of the principal balance, and any remaining excess shall be refunded to Borrower. This provision concerning the crediting or refund of excess interest shall control and take precedence over all other agreements between Borrower and Bank so that under no circumstances shall the total interest contracted for, charged or received by Bank exceed the Maximum Lawful Amount.

(c) *Computation of Interest; Default Rate.* Interest is computed on a 360 day year for the actual number of days elapsed. Bank will not compute the interest in a manner that would cause Bank to contract for, charge or receive interest that would exceed the Maximum Lawful Rate or the Maximum Lawful Amount. After an Event of Default, Obligations accrue interest at the Default Interest Rate. The Default Interest Rate is the least of (i) the Maximum Lawful Rate, if the Maximum Lawful rate is established by applicable law, or (ii) the interest rate applicable immediately prior to the occurrence of the Event of Default plus 5 percentage points, if no Maximum Lawful Rate law has been established by applicable law; or (iii) 18% per annum; or

(iv) such lesser rate of interest as Bank in its sole discretion may choose to charge; but in no event more than the Maximum Lawful Rate.

(d) *Request to Debit Accounts.* Bank may debit any of Borrower's deposit accounts including Account Number 3300402717 for principal and interest payments or any amounts Borrower owes Bank. Bank will notify Borrower when it debits Borrower's accounts. These debits are not a set-off. Payments received after 12:00 noon Pacific time are considered received at the opening of business on the next Business Day.

2.3.2 Committed Revolving Line.

(a) *Interest Rate.* Advances under the Committed Revolving Line accrue interest on the outstanding principal balance thereof at a per annum rate 1.0 percentage points (1.0%) above the Prime Rate. The interest rate on the Committed Revolving Line increases or decreases when the Prime Rate changes.

(b) *Payments.* Interest on the Committed Revolving Line is payable on the first day of each month. When a payment is due on a day that is not a Business Day, the payment is due the next Business Day and additional fees or interest accrue.

2.4 Fees. Borrower will pay to Bank:

(a) *Facility Fee.* A fully earned, non-refundable facility fee in the amount of \$9,000, due on the date that Borrower executes and delivers this Agreement to Bank;

(b) *Bank Expenses.* All Bank Expenses (including reasonable attorney's fees and expenses) incurred through and after the Effective Date when due; and

(c) *Usage Fee.* A usage fee, payable in arrears within 15 days of the end of each calendar quarter, in an amount equal to the product of .12% times the per annum average Unused Balance. The term "Unused Balance" shall mean the result of (i) the Committed Revolving Line minus (ii) the aggregate amount of all Advances, and minus (iii) the face amount of all outstanding Letters of Credit (including drawn but unreimbursed Letters of Credit).

2.5 Additional Costs. If any law or regulation increases Bank's costs or reduces its income for any loan, Borrower will pay the increase in cost or reduction in income or additional expense.

3 CONDITIONS OF LOANS.

3.1 Conditions Precedent to Initial Credit Extension. Bank's obligation to make the initial Credit Extension is subject to the condition precedent that it receive the agreements, documents and fees it requires, including a Consent of Landlord from the landlord of each Borrower in the form attached as Exhibit E or such other form as may be approved by Bank.

3.2 Conditions Precedent to all Credit Extensions. Bank's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following:

(a) timely receipt of any Payment/Advance Form, as applicable; and

(b) the representations and warranties in Section 5 must be materially true on the date of the Payment/Advance Form, as applicable and on the effective date of each Credit Extension and no Event of Default may have occurred and be continuing, or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in Section 5 remain true.

4 CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower grants Bank a continuing security interest in all presently existing and later acquired Collateral to secure all Obligations and performance of each of Borrower's duties under the Loan Documents. Except for Permitted Liens, any security interest will be a first priority security interest in the Collateral. Bank may place a "hold" on any deposit account pledged as Collateral. If this Agreement is terminated, Bank's lien and security interest in the Collateral will continue until Borrower fully satisfies its Obligations.

4.2 Authorization to File. Borrower authorizes Bank to file financing statements without notice to Borrower, with all appropriate jurisdictions, as Bank deems appropriate, in order to perfect or protect Bank's interest in the Collateral.

5 REPRESENTATIONS AND WARRANTIES. Borrower represents and warrants as follows:

5.1 Due Organization and Authorization. Borrower and each Subsidiary is duly existing and in good standing in its state of formation and qualified and licensed to do business in, and in good standing in, any state in which the conduct of its business or its ownership of property requires that it be qualified.

The execution, delivery and performance of the Loan Documents have been duly authorized, and do not conflict with Borrower's formation documents, nor constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any agreement to which or by which it is bound in which the default could cause a Material Adverse Change.

5.2 Collateral. Borrower has good title to the Collateral, free of Liens except Permitted Liens or Borrower has Rights to each asset that is Collateral. Borrower has no other deposit account, other than the deposit accounts described in the Schedule. The Accounts are bona fide, existing obligations, and the service or property has been performed or delivered to the account debtor or its agent for immediate shipment to and unconditional acceptance by the account debtor. The Collateral is not in the possession of any third party bailee (such as at a warehouse). In the event that Borrower, after the date hereof, intends to store or otherwise deliver the Collateral to such a bailee, then Borrower will receive the prior written consent of Bank and such bailee must acknowledge in writing that the bailee is holding such Collateral for the benefit of Bank. Borrower has no notice of any actual or imminent Insolvency Proceeding of any account debtor whose accounts are an Eligible Account in any Borrowing Base Certificate. All Inventory is in all material respects of good and marketable quality, free from material defects. Borrower is the sole owner of the Intellectual Property, except for non-exclusive licenses granted to its customers in the ordinary course of business. Each Patent is valid and enforceable and no part of the Intellectual Property has been judged invalid or unenforceable, in whole or in part, and no claim has been made that any part of the Intellectual Property violates the rights of any third party except to the extent such claim could not reasonably be expected to cause a Material Adverse Change.

5.3 Litigation. Except as shown in the Schedule, there are no actions or proceedings pending or, to the knowledge of Borrower's Responsible Officers, threatened by or against Borrower or any Subsidiary in which a likely adverse decision could reasonably be expected to cause a Material Adverse Change.

5.4 No Material Adverse Change in Financial Statements. All consolidated financial statements for Borrower, and any Subsidiary, delivered to Bank fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Bank.

5.5 Solvency. The fair salable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; the Borrower is not left with unreasonably small capital after the transactions in this Agreement; and Borrower is able to pay its debts (including trade debts) as they mature.

5.6 Regulatory Compliance. Borrower is not an "investment company" or a company "controlled" by an "investment company" under the Investment Company Act. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulation U of the Federal Reserve Board of Governors). Borrower has complied with the Federal Fair Labor Standards Act. Borrower has not violated any laws, ordinances or rules, the violation of which could cause a Material Adverse Change. None of Borrower's or any Subsidiary's properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than legally. Borrower and each Subsidiary has timely filed all required tax returns and paid, or made adequate provision to pay, all material taxes. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all government authorities that are necessary to continue its business as currently conducted.

5.7 Subsidiaries. Borrower does not own any stock, partnership interest or other equity securities except for Permitted Investments.

5.8 Full Disclosure. No written representation, warranty or other statement of Borrower in any certificate or written statement given to Bank contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading.

6 AFFIRMATIVE COVENANTS. Borrower will do all of the following for so long as Bank has an obligation to lend, or there are outstanding obligations:

6.1 Government Compliance. Borrower will maintain its and all Subsidiaries' legal existence and good standing in its jurisdiction of formation and maintain qualification in each jurisdiction in which the failure to so qualify could reasonably be expected to have a material adverse effect on Borrower's business or operations. Borrower will comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject, noncompliance with which could have a material adverse effect on Borrower's business or operations or could reasonably be expected to cause a Material Adverse Change.

6.2 Financial Statements, Reports, Certificates.

(a) Borrower will deliver to Bank: (i) as soon as available, but no later than 30 days after the last day of each month, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during the period, in a form acceptable to Bank and certified by a Responsible Officer; (ii) as soon as available, but no later than 120 days after the end of Borrower's fiscal year, audited consolidated financial statements prepared under GAAP, consistently applied, together with an unqualified opinion on the financial statements from an independent certified public accounting firm acceptable to Bank; (iii) within 5 days of filing, copies of all statements, reports and notices made available to Borrower's security holders or to any holders of Subordinated Debt and all reports on Form 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission; (iv) a prompt report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of \$100,000 or more; (v) prompt notice of any material change in the composition of the Intellectual Property, including any subsequent ownership right of Borrower in or to any Copyright, Patent or Trademark not shown in any intellectual property security agreement between Borrower and Bank

or knowledge of an event that materially adversely affects the value of the Intellectual Property; and (vi) budgets, sales projections, operating plans or other financial information Bank requests.

(b) Within 30 days after the last day of each month, Borrower will deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in the form of Exhibit D, with aged listings of accounts receivable and accounts payable.

(c) Within 30 days after the last day of each month, Borrower will deliver to Bank with the monthly financial statements a Compliance Certificate signed by a Responsible Officer in the form of Exhibit D.

(d) Allow Bank to audit Borrower's Collateral at Borrower's expense. Such audits will be conducted no more often than once every 12 months unless an Event of Default has occurred and is continuing.

6.3 Inventory; Returns. Borrower will keep all Inventory in good and marketable condition, free from material defects. Returns and allowances between Borrower and its account debtors will follow Borrower's customary practices as they exist at the Effective Date. Borrower must promptly notify Bank of all returns, recoveries, disputes and claims that involve more than \$50,000.

6.4 Taxes. Borrower will make, and cause each Subsidiary to make, timely payment of all material federal, state, and local taxes or assessments and will deliver to Bank, on demand, appropriate certificates attesting to the payment.

6.5 Insurance. Borrower will keep its business and the Collateral insured for risks and in amounts, as Bank requests. Insurance policies will be in a form, with companies, and in amounts that are reasonably satisfactory to Bank. All property policies will have a lender's loss payable endorsement showing Bank as an additional loss payee and all liability policies will show the Bank as an additional insured and all policies will provide that the insurer must give Bank at least 20 days notice before canceling its policy. At Bank's request, Borrower will deliver certified copies of policies and evidence of all premium payments. So long as no Event of Default has occurred and is continuing, Borrower shall have the option of applying the proceeds of any casualty policy to the replacement or repair of destroyed or damaged property; provided that, after the occurrence and during the continuance of an Event of Default, all proceeds payable under any such casualty policy shall, at the option of Bank, be payable to Bank on account of the Obligations.

6.6 Primary Accounts. Borrower will maintain its primary depository and operating accounts with Bank, which shall constitute not less than 85% of Borrower's total cash, cash equivalents and investment accounts. Borrower will deliver account control agreements on Bank's standard form from each financial institution at which Borrower maintains an account, including for account maintained at Bank.

6.7 Financial Covenants. Borrower will maintain as of the last day of each month:

(a) *Quick Ratio (Adjusted).* A ratio of Quick Assets to Current Liabilities minus Deferred Maintenance Revenue: (i) from the Effective Date to and including March 31, 2004, of at least 1.25 to 1.00; and (ii) from April 1, 2004 to and including the Revolving Maturity Date, of at least 1.50 to 1.00.

(b) *Tangible Net Worth.* A Tangible Net Worth of at least \$3,000,000.

6.8 Registration of Intellectual Property Rights. Borrower will register with the United States Patent and Trademark Office or the United States Copyright Office its Intellectual Property and additional Intellectual Property rights developed or acquired including revisions or additions with any product before the sale or licensing of the product to any third party.

Borrower will (a) protect, defend and maintain the validity and enforceability of the Intellectual Property and promptly advise Bank in writing of material infringements and (b) not allow any Intellectual Property material to Borrower's business to be abandoned, forfeited or dedicated to the public without Bank's written consent.

6.9 Further Assurances. Borrower will execute any further instruments and take further action as Bank reasonably requests to perfect or continue Bank's security interest in the Collateral or to effect the purposes of this Agreement.

7 NEGATIVE COVENANTS.

Borrower will not do any of the following without Bank's prior written consent, which will not be unreasonably withheld, for so long as Bank has an obligation to lend or there are any outstanding Obligations:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, except for Transfers (a) of Inventory in the ordinary course of business; (b) of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business; or (c) of worn-out or obsolete Equipment.

7.2 Changes in Business, Ownership, Management or Business Locations. Engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower or reasonably related thereto or have a material change in its ownership of greater than 25% (other than by the sale of Borrower's equity securities in a public offering or to venture capital investors so long as Borrower identifies the venture capital investors prior to the closing of the investment) or management. Borrower will not, without at least 30 days prior written notice, relocate its chief executive office or add any new offices or business locations in which Borrower maintains or stores over \$5,000 in Borrower's assets or property.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person, except where (a) no Event of Default has occurred and is continuing or would result from such action during the term of this Agreement and (b) such transaction would not result in a decrease of more than 25% of Tangible Net Worth. A Subsidiary may merge or consolidate into another Subsidiary or into Borrower.

7.4 Indebtedness. Create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

7.5 Encumbrance. Create, incur, or allow any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so, except for Permitted Liens, or permit any Collateral not to be subject to the first priority security interest granted herein, subject to Permitted Liens.

7.6 Investments; Distributions. Directly or indirectly acquire or own any Person, or make any Investment in any Person, other than Permitted Investments, or permit any of its Subsidiaries to do so. Pay any dividends or make any distribution or payment or redeem, retire or purchase any capital stock. Notwithstanding the foregoing, Borrower may pay dividends owing prior to the Effective Date on its Series A Preferred Stock in an aggregate amount not to exceed \$50,000.

7.7 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

7.8 Subordinated Debt. Make or permit any payment on any Subordinated Debt, except under the terms of the Subordinated Debt, or amend any provision in any document relating to the Subordinated Debt, without Bank's prior written consent.

7.9 Compliance. Become an "investment company" or a company controlled by an "investment company," under the Investment Company Act of 1940 or undertake as one of its important activities extending credit to purchase or carry margin stock, or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a material adverse effect on Borrower's business or operations or could reasonably be expected to cause a Material Adverse Change, or permit any of its Subsidiaries to do so.

8 EVENTS OF DEFAULT. Any one of the following is an Event of Default:

8.1 Payment Default. If Borrower fails to pay any of the Obligations within 3 days after their due date. During the additional period the failure to cure the default is not an Event of Default (but no Credit Extensions will be made during the cure period);

8.2 Covenant Default. If Borrower (a) does not perform any obligation in Article 6 or violates any covenant in Article 7 (for which failures or violations there are no grace or cure periods) or (b) does not perform or observe any other material term, condition or covenant in this Agreement, any Loan Documents, or in any agreement between Borrower and Bank and as to any default under a term, condition or covenant that can be cured, has not cured the default within 10 days after it occurs, or if the default cannot be cured within 10 days or cannot be cured after Borrower's attempts in the 10 day period, and the default may be cured within a reasonable time, then Borrower has an additional period, (of not more than 30 days) to attempt to cure the default. During the additional period the failure to cure the default is not an Event of Default (but no Credit Extensions will be made during the cure period);

8.3 Material Adverse Change.

(a) A material impairment in the perfection or priority of the Bank's security interest in the Collateral or in the value of such Collateral which is not covered by adequate insurance occurs; (b) a material adverse change in the business, operations, or condition (financial or otherwise) of the Borrower occurs; or (c) a material impairment of the prospect of repayment of any portion of the Obligations occurs (a "Material Adverse Change");

8.4 Attachment. (a) If any material portion of Borrower's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in 10 days; (b) if Borrower is enjoined, restrained, or prevented by court order from conducting a material part of its business; (c) if a judgment or other claim becomes a Lien on a material portion of Borrower's assets; or (d) if a notice of lien, levy, or assessment is filed against any of Borrower's assets by any government agency and not paid within 10 days after Borrower receives notice. These are not Events of Default if stayed or if a bond is posted pending contest by Borrower (but no Credit Extensions will be made during the cure period);

8.5 Insolvency. (a) if Borrower becomes insolvent; (b) if Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within 30 days (but no Credit Extensions will be made before any Insolvency Proceeding is dismissed);

8.6 Other Agreements. If there is a default in any agreement between Borrower and a third party that gives the third party the right to accelerate any Indebtedness exceeding \$50,000 or that could cause a Material Adverse Change;

8.7 Judgments. If a money judgment(s) in the aggregate of at least \$50,000 is rendered against Borrower and is unsatisfied and unstayed for 10 days (but no Credit Extensions will be made before the judgment is stayed or satisfied); or

8.8 Misrepresentations. If Borrower or any Person acting for Borrower makes any material misrepresentation or material misstatement now or later in any warranty or representation in this Agreement or in any writing delivered to Bank or to induce Bank to enter this Agreement or any Loan Document.

9 BANK'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. When an Event of Default occurs and continues Bank may, without notice or demand, do any or all of the following:

- (a) Declare all Obligations immediately due and payable (but if an Event of Default described in Section 8.5 occurs all Obligations are immediately due and payable without any action by Bank);
- (b) Stop advancing money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and Bank;
- (c) Settle or adjust disputes and claims directly with account debtors for amounts, on terms and in any order that Bank considers advisable;
- (d) Make any payments and do any acts it considers necessary or reasonable to protect its security interest in the Collateral. Borrower will assemble the Collateral if Bank requests and make it available as Bank designates. Bank may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Bank a license to enter and occupy any of its premises, without charge, to exercise any of Bank's rights or remedies;
- (e) Apply to the Obligations any (i) balances and deposits of Borrower it holds, or (ii) any amount held by Bank owing to or for the credit or the account of Borrower;
- (f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Bank is granted a non-exclusive, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, Mask Works, rights of use of any name, trade secrets, trade names, Trademarks, service marks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section, Borrower's rights under all licenses and all franchise agreements inure to Bank's benefit; and
- (g) Dispose of the Collateral according to the Code.
- (h) Transfer this Agreement and all of Borrower's Obligations hereunder to Bank's Specialty Finance Division, at which time Borrower agrees, if Bank shall so require, to amend and restate the terms of this Agreement on documents provided by Bank's Specialty Finance Division.

9.2 Power of Attorney. Effective only when an Event of Default occurs and continues, Borrower irrevocably appoints Bank as its lawful attorney to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against account debtors, (c) make, settle, and adjust all claims under Borrower's insurance policies; (d) settle and adjust disputes and claims about the Accounts directly with account debtors, for amounts and on terms Bank determines reasonable; and (e) transfer the Collateral into the name of Bank or a third party as the Code permits. Bank may exercise the power of attorney to sign

Borrower's name on any documents necessary to perfect or continue the perfection of any security interest regardless of whether an Event of Default has occurred. Bank's appointment as Borrower's attorney in fact, and all of Bank's rights and powers, coupled with an interest, are irrevocable until all Obligations have been fully repaid and performed and Bank's obligation to provide Credit Extensions terminates.

9.3 Accounts Collection. When an Event of Default occurs and continues, Bank may notify any Person owing Borrower money of Bank's security interest in the funds and verify the amount of the Account. Borrower must collect all payments in trust for Bank and, if requested by Bank, immediately deliver the payments to Bank in the form received from the account debtor, with proper endorsements for deposit.

9.4 Bank Expenses. If Borrower fails to pay any amount or furnish any required proof of payment to third persons Bank may make all or part of the payment or obtain insurance policies required in Section 6.5, and take any action under the policies Bank deems prudent. Any amounts paid by Bank are Bank Expenses and immediately due and payable, bearing interest at the then applicable rate and secured by the Collateral. No payments by Bank are deemed an agreement to make similar payments in the future or Bank's waiver of any Event of Default.

9.5 Bank's Liability for Collateral. If Bank complies with reasonable banking practices, it is not liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other person. Borrower bears all risk of loss, damage or destruction of the Collateral.

9.6 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements are cumulative. Bank has all rights and remedies provided under the Code, by law, or in equity. Bank's exercise of one right or remedy is not an election, and Bank's waiver of any Event of Default is not a continuing waiver. Bank's delay is not a waiver, election, or acquiescence. No waiver is effective unless signed by Bank and then is only effective for the specific instance and purpose for which it was given.

9.7 Demand Waiver. Borrower waives demand, notice of default or dishonor, notice of acceleration, notice of intent to accelerate, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guaranties held by Bank on which Borrower is liable.

10 NOTICES AND WAIVERS.

10.1 Notices. Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set above.

10.2 Subrogation and Similar Rights. Notwithstanding any other provision of this Agreement or any other document related to this Agreement, until payment to Bank in full and performance of all Obligations, each Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating the Borrower to the rights of Bank under this Agreement) to seek contribution, indemnification, or any other form of reimbursement from any other Borrower, or any other entity now or hereafter primarily or secondarily liable for any of the Obligations, for any payment made by the Borrower with respect to the Obligations in connection with this Agreement or otherwise and all rights that it might have to benefit from, or to participate in, any security for the

Obligations as a result of any payment made by the Borrower with respect to the Obligations in connection with this Agreement or otherwise. Any agreement providing for indemnification, reimbursement or any other arrangement prohibited under this Section 10.2 shall be null and void. If any payment is made to a Borrower in contravention of this Section 10.2, such Borrower shall hold such payment in trust for Bank and such payment shall be promptly delivered to Bank for application to the Obligations, whether matured or unmatured.

10.3 Waivers of Notice. Each Borrower waives notice of acceptance hereof; notice of the existence, creation or acquisition of any of the Obligations; notice of an Event of Default; notice of the amount of the Obligations outstanding at any time; notice of intent to accelerate; notice of acceleration; notice of any adverse change in the financial condition of any other Borrower or of any other fact that might increase the Borrower's risk; presentment for payment; demand; protest and notice thereof as to any instrument; default; and all other notices and demands to which the Borrower would otherwise be entitled. Each Borrower waives any defense arising from any defense of any other Borrower, or by reason of the cessation from any cause whatsoever of the liability of any other Borrower. Bank's failure at any time to require strict performance by any Borrower of any provision of this Agreement shall not waive, alter or diminish any right of Bank thereafter to demand strict compliance and performance therewith. Nothing contained herein shall prevent Bank from foreclosing on the lien of any deed of trust, mortgage or other security instrument, or exercising any rights available thereunder, and the exercise of any such rights shall not constitute a legal or equitable discharge of any Borrower. Each Borrower also waives any defense arising from any act or omission of Bank that changes the scope of the Borrower's risks hereunder. Each Borrower hereby waives any right to assert against Bank any defense (legal or equitable), setoff, counterclaim, or claims that such Borrower individually may now or hereafter have against another Borrower or any other entity liable to Borrower with respect to the Obligations in any manner or whatsoever until the Obligations are paid in full to Bank.

10.4 Subrogation Defenses. Each Borrower waives the benefits, if any, of any statutory or common law rule that may permit a borrower to assert any defenses of a surety or guarantor, or that may give a borrower the right to require a senior creditor to marshal assets, and Borrower agrees that it shall not assert any such defenses or rights.

10.5 Right to Settle, Release.

(a) The liability of Borrower hereunder shall not be diminished by (i) any agreement, understanding or representation that any of the Obligations is or was to be guaranteed by another entity or secured by other property, or (ii) any release or unenforceability, whether partial or total, or rights, if any, which Borrower may now or hereafter have against any other entity, including another Borrower, or property with respect to any of the Obligations.

(b) Without notice to any Borrower and without affecting the liability of any Borrower hereunder, Bank may (i) compromise, settle, renew, extend the time for payment, change the manner or terms of payment, discharge the performance of, decline to enforce, or release all or any of the Obligations with respect to a Borrower, (ii) grant other indulgences to a Borrower in respect of the Obligations, (iii) modify in any manner any documents, relating to the Obligations with respect to a Borrower, (iv) release, surrender or exchange any deposits or other property securing the Obligations, whether pledged by a Borrower or any other entity, or (v) compromise, settle renew, or extend the time for payment, discharge the performance of, decline to enforce, or release all or any obligations of any guarantor, endorser or other entity who is now or may hereafter be liable with respect to any of the Obligations.

11 CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER.

Texas law governs the Loan Documents without regard to principles of conflicts of law as if performed entirely within the State of Texas by Texas residents. Borrower and Bank each submit to the exclusive jurisdiction of the State and Federal courts in Travis County, Texas.

BORROWER AND BANK EACH WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL AND, BY ITS EXECUTION OF THIS AGREEMENT CONFIRMS THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH COUNSEL.

12 GENERAL PROVISIONS.

12.1 Successors and Assigns. This Agreement binds and is for the benefit of the successors and permitted assigns of each party. Borrower may not assign this Agreement or any rights or Obligations under it without Bank's prior written consent which may be granted or withheld in Bank's discretion. Bank has the right, without the consent of or notice to Borrower, to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits under this Agreement, the Loan Documents or any related agreement.

12.2 Indemnification. BORROWER WILL INDEMNIFY, DEFEND AND HOLD HARMLESS BANK AND ITS OFFICERS, EMPLOYEES AND AGENTS AGAINST: (A) ALL OBLIGATIONS, DEMANDS, CLAIMS, AND LIABILITIES ASSERTED BY ANY OTHER PARTY IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED BY THE LOAN DOCUMENTS; AND (B) ALL LOSSES OR BANK EXPENSES INCURRED, OR PAID BY BANK FROM, FOLLOWING, OR CONSEQUENTIAL TO TRANSACTIONS BETWEEN BANK AND BORROWER (INCLUDING REASONABLE ATTORNEYS' FEES AND EXPENSES), EXCEPT FOR LOSSES CAUSED BY BANK'S GROSS NEGLIGENCE OR WILLFUL MISCONDUCT. THE FOREGOING INDEMNITY BINDS BORROWER TO INDEMNIFY BANK AND ITS OFFICERS, EMPLOYEES AND AGENTS FOR ITS OWN NEGLIGENCE (WHETHER SOLE, COMPARATIVE, CONTRIBUTORY OR OTHERWISE, BUT NOT GROSS NEGLIGENCE OR WILLFUL MISCONDUCT) AND THAT OF ITS OFFICERS, EMPLOYEES, AGENTS AND CONTRACTORS, AS WELL AS ANY LIABILITY ARISING BY VIRTUE OF ANY SUCH PERSON'S STRICT LIABILITY.

12.3 Time of Essence. Time is of the essence for the performance of all obligations in this Agreement.

12.4 Severability of Provision. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

12.5 Amendments in Writing, Integration. All amendments to this Agreement must be in writing signed by both Bank and Borrower. This Agreement and the Loan Documents represent the entire agreement about this subject matter, and supersedes prior or contemporaneous negotiations or agreements. All prior or contemporaneous agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Agreement and the Loan Documents merge into this Agreement and the Loan Documents.

12.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, are an original, and all taken together, constitute one Agreement.

12.7 Survival. All covenants, representations and warranties made in this Agreement continue in full force while any Obligations remain outstanding. The obligations of Borrower in Section 12.2 to indemnify Bank will survive until all statutes of limitations for actions that may be brought against Bank have run.

12.8 Confidentiality. In handling any confidential information, Bank will exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made (a) to Bank's subsidiaries or affiliates in connection with their business with Borrower, (b) to prospective transferees or purchasers of any interest in the loans (provided, however, Bank shall use commercially reasonable efforts in obtaining such prospective transferee or purchasers agreement of the terms of this provision), (c) as required by law, regulation, subpoena, or other order, (d) as required in connection with Bank's examination or audit and (e) as Bank considers appropriate in exercising remedies under this Agreement. Confidential information does not include information that either: (i) is in the public domain or in Bank's possession when disclosed to Bank, or becomes part of the public domain after disclosure to Bank; or (ii) is disclosed to Bank by a third party, if Bank does not know that the third party is prohibited from disclosing the information. Notwithstanding anything contained herein to the contrary, the term "confidential information" shall not include, and Bank may disclose without limitation of any kind, any information with respect to the "tax treatment" and "tax structure" (in each case within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated hereby and all materials of any kind (including opinions or other tax analysis) that are provided to Bank relating to such tax treatment or tax structure.

12.9 Attorneys' Fees, Costs and Expenses. In any action or proceeding between Borrower and Bank arising out of the Loan Documents, the prevailing party will be entitled to recover its reasonable attorneys' fees and other costs and expenses incurred, in addition to any other relief to which it may be entitled, whether or not a lawsuit is filed.

12.10 Qualified Commercial Loan Certification. Borrower hereby certifies to Lender that:

- (a) Borrower has been advised by Lender to seek the advice of an attorney and accountant in connection with the loans evidenced by this Agreement; and
- (b) Borrower has had the opportunity to seek the advice of an attorney and accountant of Borrower's choice in connection with the loans evidenced by this Agreement.
- (c) The loans contemplated herein are made solely for business purposes and are not for personal, family, household or agricultural purposes.

13 DEFINITIONS. In this Agreement:

13.1 Definitions.

"Accounts" are all existing and later arising accounts, contract rights, and other obligations owed Borrower in connection with its sale or lease of goods (including licensing software and other technology) or provision of services, all credit insurance, guaranties, other security and all merchandise returned or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" is a loan advance (or advances) under the Committed Revolving Line.

"Affiliate" of a Person is a Person that owns or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"**Bank Expenses**" are all audit fees and expenses and reasonable costs or expenses (including reasonable attorneys' fees and expenses) for preparing, negotiating, administering, defending and enforcing the Loan Documents (including appeals or Insolvency Proceedings).

"**Borrower's Books**" are all Borrower's books and records including ledgers, records regarding Borrower's assets or liabilities, the Collateral, business operations or financial condition and all computer programs or discs or any equipment containing the information.

"**Borrowing Base**" is 80% of Eligible Accounts; provided, however, that Bank may lower the percentage of the Borrowing Base after performing an audit of Borrower's Collateral.

"**Business Day**" is any day that is not a Saturday, Sunday or a day on which the Bank is closed.

"**Code**" is the Texas Business and Commerce Code.

"**Collateral**" is the property described on Exhibit A.

"**Committed Revolving Line**" is a Credit Extension of up to \$6,000,000.

"**Contingent Obligation**" is, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but "Contingent Obligation" does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under the guarantee or other support arrangement.

"**Copyrights**" are all copyright rights, applications or registrations and like protections in each work or authorship or derivative work, whether published or not (whether or not it is a trade secret) now or later existing, created, acquired or held.

"**Credit Extension**" is each Advance, Letter of Credit or any other extension of credit by Bank for Borrower's benefit.

"**Current Liabilities**" are the aggregate amount of Borrower's Total Liabilities which mature within one (1) year.

"**Deferred Maintenance Revenue**" is all amounts received in advance of performance under maintenance contracts and not yet recognized as revenue.

"**Effective Date**" is the date that Bank executes this Agreement, as evidenced by the date below its signature block on the signature page of this Agreement.

"**Eligible Accounts**" are Accounts in the ordinary course of Borrower's business that meet all Borrower's representations and warranties in Section 5.2; but Bank may change eligibility standards by giving Borrower 30 days prior written notice. Unless Bank agrees otherwise in writing, Eligible Accounts will not include:

- (a) Accounts that the account debtor has not paid within 90 days of invoice date;
- (b) Accounts for an account debtor, 50% or more of whose Accounts have not been paid within 90 days of invoice date;
- (c) Credit balances;

(d) Accounts for an account debtor, including Affiliates, whose total obligations to Borrower exceed 25% of all Accounts, except for IBM, for which the percentage may be 40% for the amounts that exceed that percentage, unless Bank approves in writing;

(e) Accounts for which the account debtor does not have its principal place of business in the United States except for Eligible Foreign Accounts;

(f) Accounts for which the account debtor is a federal, state or local government entity or any department, agency, or instrumentality except for Accounts of the United States if the payee has assigned its payment rights to Bank and the assignment has been acknowledged under the Assignment of Claims Act of 1940 (31 U.S.C. 3727);

(g) Accounts for which Borrower owes the account debtor, but only up to the amount owed (sometimes called "contra" accounts, accounts payable, customer deposits or credit accounts);

(h) Accounts for demonstration or promotional equipment, or in which goods are consigned, sales guaranteed, sale or return, sale on approval, bill and hold, or other terms if account debtor's payment may be conditional;

(i) Accounts for which the account debtor is Borrower's Affiliate, officer, employee, or agent;

(j) Accounts in which the account debtor disputes liability or makes any claim and Bank believes there may be a basis for dispute (but only up to the disputed or claimed amount), or if the Account Debtor is subject to an Insolvency Proceeding, or becomes insolvent, or goes out of business;

(k) Accounts for which the account debtor paid using a credit card; and

(l) Accounts for which Bank reasonably determines collection to be doubtful.

"Eligible Foreign Accounts" are Accounts for which the account debtor does not have its principal place of business in the United States but are:

(a) covered by credit insurance satisfactory to Bank, less any deductible; or (b) supported by letter(s) of credit acceptable to Bank; (c) that Bank approves in writing, or (d) Accounts for which the principal place of business of the account debtor is Canada and the aggregate amount of such Accounts does not exceed \$400,000.

"ERISA" is the Employment Retirement Income Security Act of 1974, and its regulations.

"GAAP" is generally accepted accounting principles.

"Indebtedness" is (a) indebtedness for borrowed money or the deferred price of property or services, such as reimbursement and other obligations for surety bonds and letters of credit, (b) obligations evidenced by notes, bonds, debentures or similar instruments, (c) capital lease obligations and (d) Contingent Obligations.

"Insolvency Proceeding" is any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Intellectual Property" is:

(a) Copyrights, Trademarks, Patents, and Mask Works including amendments, renewals, extensions, and all licenses or other rights to use and all license fees and royalties from the use;

(b) Any trade secrets and any Intellectual Property rights in computer software and computer software products now or later existing, created, acquired or held;

(c) All design rights which may be available to Borrower now or later created, acquired or held;

(d) Any claims for damages (past, present or future) for infringement of any of the rights above, with the right, but not the obligation, to sue and collect damages for use or infringement of the intellectual property rights above; and

(e) All proceeds and products of the foregoing, including all insurance, indemnity or warranty payments.

"Inventory" is present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or later owned by or in the custody or possession, actual or constructive, of Borrower, including inventory temporarily out of its custody or possession or in transit and including returns on any accounts or other proceeds (including insurance proceeds) from the sale or disposition of any of the foregoing and any documents of title.

"Investment" is any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"Letter of Credit" and **"Letters of Credit"** are defined in Section 2.1.2.

"Lien" is a mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" are, collectively, this Agreement, any note, or notes executed by Borrower, and any other present or future agreement between Borrower and/or for the benefit of Bank in connection with this Agreement, all as amended, extended or restated.

"Material Adverse Change" is defined in Section 8.3.

"Mask Works" are all mask works or similar rights available for the protection of semiconductor chips, now owned or later acquired.

"Maximum Lawful Rate" is the maximum rate of interest and the term **"Maximum Lawful Amount"** means the maximum amount of interest that is permissible under applicable state or federal laws for the type of loan evidenced by the Loan Documents. If the Maximum Lawful Rate is increased by statute or other governmental action after the Effective Date, then the new Maximum Lawful Rate will be applicable to the payments from the effective date of the rate change, unless otherwise prohibited by law.

"Obligations" are all debts, principal, interest, Bank Expenses and other amounts Borrower owes Bank now or later, including Letters of Credit and including interest accruing after Insolvency Proceedings begin and debts, liabilities, or obligations of Borrower assigned to Bank.

"Patents" are patents, patent applications and like protections, including improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Payment/Advance Form" is defined in Section 2.1.1.

"Permitted Indebtedness" is:

- (a) Borrower's indebtedness to Bank under this Agreement or the Loan Documents;
- (b) Indebtedness existing on the Effective Date and shown on the Schedule;
- (c) Subordinated Debt;
- (d) Indebtedness to trade creditors incurred in the ordinary course of business; and

(e) Indebtedness secured by Permitted Liens.

"Permitted Investments" are:

- (a) Investments shown on the Schedule and existing on the Effective Date; and
- (b) marketable direct obligations issued or unconditionally guaranteed by the United States or its agency or any State maturing within 1 year from its acquisition, (ii) commercial paper maturing no more than 1 year after its creation and having the highest rating from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) Bank's certificates of deposit issued maturing no more than 1 year after issue.

"Permitted Liens" are:

- (a) Liens existing on the Effective Date and shown on the Schedule or arising under this Agreement or other Loan Documents;
- (b) Liens for taxes, fees, assessments or other government charges or levies, either not delinquent or being contested in good faith and for which Borrower maintains adequate reserves on its Books, if they have no priority over any of Bank's security interests;
- (c) Purchase money Liens (i) on Equipment acquired or held by Borrower or its Subsidiaries incurred for financing the acquisition of the Equipment, or (ii) existing on equipment when acquired, if the Lien is confined to the property and improvements and the proceeds of the equipment;
- (d) Leases or subleases and licenses or sublicenses granted in the ordinary course of Borrower's business, if the leases, subleases, licenses and sublicenses permit granting Bank a security interest;
- (e) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), *but* any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase.

"Person" is any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"Prime Rate" is Bank's most recently announced "prime rate," even if it is not Bank's lowest rate.

"Quick Assets" is, on any date, the Borrower's consolidated, unrestricted cash, cash equivalents, net billed accounts receivable and investments with maturities of less than 12 months determined according to GAAP.

"Responsible Officer" is each of the Chief Executive Officer, the President, the Chief Financial Officer and the Controller of Borrower.

"Revolving Maturity Date" is _____, 2004.

"Schedule" is any attached schedule of exceptions.

"Subordinated Debt" is debt incurred by Borrower subordinated to Borrower's indebtedness owed to Bank and which is reflected in a written agreement in a manner and form acceptable to Bank and approved by Bank in writing.

"Subsidiary" is for any Person, a joint venture, or any other business entity of which more than 50% of the voting stock or other equity interests is owned or controlled, directly or indirectly, by the Person or one or more Affiliates of the Person.

"**Tangible Net Worth**" is, on any date, the consolidated total assets of Borrower and its Subsidiaries *minus*, (a) any amounts attributable to (i) goodwill, (ii) intangible items such as unamortized debt discount and expense, Patents, trade and service marks and names, Copyrights and research and development expenses except prepaid expenses, and (iii) reserves not already deducted from assets, *and* (b) Total Liabilities plus Subordinated Debt.

"**Total Liabilities**" is on any day, obligations that should, under GAAP, be classified as liabilities on Borrower's consolidated balance sheet, including all Indebtedness and Subordinated Debt.

"**Trademarks**" are trademark and service mark rights, registered or not, applications to register and registrations and like protections, and the entire goodwill of the business of Assignor connected with the trademarks.

THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

BORROWER:	BANK
PERFICIENT, INC.	SILICON VALLEY BANK
By: _____	By: _____
Name: _____	Name: _____
Its: _____	Its: _____
PERFICIENT CANADA, INC.	Date: _____
By: _____	
Name: _____	
Its: _____	

Schedule to Loan and Security Agreement

The exact correct corporate name of Borrower is (attach a copy of the formation documents, e.g., articles, partnership agreement):

Perficient, Inc.:

Perficient Canada, Inc.:

Borrower's State of formation:

Perficient, Inc.:

Perficient Canada, Inc.:

Borrower has operated under only the following other names (if none, so state):

Perficient, Inc.:

Perficient Canada, Inc.:

All other address at which the Borrower does business are as follows (attach additional sheets if necessary and include all warehouse addresses):

Perficient, Inc.:

Perficient Canada, Inc.:

Borrower has deposit accounts and/or investment accounts located only at the following institutions:

Perficient, Inc.:

Perficient Canada, Inc.:

List Acct. Numbers:

Perficient, Inc.:

Perficient Canada, Inc.:

Liens existing on the Effective Date and disclosed to and accepted by Bank in writing:

Perficient, Inc.:

Perficient Canada, Inc.:

Investments existing on the Effective Date and disclosed to and accepted by Bank in writing:

Perficient, Inc.:

Perficient Canada, Inc.:

Subordinated Debt:

Indebtedness on the Effective Date and disclosed to and consented to by Bank in writing:

Perficient, Inc.:

Perficient Canada, Inc.:

The following is a list of the Borrower's copyrights (including copyrights of software) which are registered with the United States Copyright Office. (Please include name of the copyright and registration number and attach a copy of the registration):

Perficient, Inc.:

Perficient Canada, Inc.:

The following is a list of all software which the Borrower sells, distributes or licenses to others, which is *not* registered with the United States Copyright Office. (Please include versions which are not registered):

Perficient, Inc.:

Perficient Canada, Inc.:

The following is a list of all of the Borrower's patents which are registered with the United States Patent Office. (Please include name of the patent and registration number and attach a copy of the registration.):

Perficient, Inc.:

Perficient Canada, Inc.:

The following is a list of all of the Borrower's patents which are pending with the United States Patent Office. (Please include name of the patent and a copy of the application.):

Perficient, Inc.:

Perficient Canada, Inc.:

The following is a list of all of the Borrower's registered trademarks. (Please include name of the trademark and a copy of the registration.):

Perficient, Inc.:

Perficient Canada, Inc.:

Borrower is not subject to litigation which would have a material adverse effect on the Borrower's financial condition, except the following (attach additional comments, if needed):

Perficient, Inc.:

Perficient Canada, Inc.:

Tax ID Number:
Perficient, Inc.:

Perficient Canada, Inc.:

Organizational Number, if any:
Perficient, Inc.:

Perficient Canada, Inc.:

SCHEDULE 2.1.2

Letter of Credit Name and No.	Maturity Date	Amount

EXHIBIT A

The Collateral consists of all of Borrower's right, title and interest in and to the following:

All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above;

All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, goodwill, trademarks, servicemarks, trade styles, trade names, patents, patent applications, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;

All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower;

All documents, cash, deposit accounts, securities, securities entitlements, securities accounts, investment property, financial assets, letters of credit, certificates of deposit, instruments and chattel paper now owned or hereafter acquired and Borrower's Books relating to the foregoing;

All copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, now owned or hereafter acquired; all trade secret rights, including all rights to unpatented inventions, know-how, operating manuals, license rights and agreements and confidential information, now owned or hereafter acquired; all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired; all claims for damages by way of any past, present and future infringement of any of the foregoing; and

All Borrower's Books relating to the foregoing and any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

EXHIBIT B

SILICON VALLEY BANK

LOAN PAYMENT/ADVANCE REQUEST FORM

Deadline for same day processing is 3:00pm PST

Fax To:

Client Name: Perficient, Inc. and Perficient Canada, Inc.

Date: _____

☐ **LOAN PAYMENT:**

From Account # _____

(Deposit Account #)

To Account # _____

(Loan Account #)

Principal \$ _____

and/or Interest \$ _____

All Borrower's representation and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the telephone transfer request for and advance, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of the date:

Authorized Signature: _____

Phone Number: _____

☐ **LOAN ADVANCE:**

Complete Outgoing Wire Request section below if all or a portion of the funds from this loan advance are for an outgoing wire.

From Account # _____

(Loan Account #)

To Account # _____

(Deposit Account #)

Amount of Advance \$ _____

All Borrower's representation and warranties in the Loan and Security Agreement are true, correct and complete in all material respects on the date of the telephone transfer request for and advance, but those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of the date:

Authorized Signature: _____ Phone Number: _____

OUTGOING WIRE REQUEST
Complete only if all or a portion of funds from the loan advance above are to be wired.
Deadline for same day processing is 12:00pm, PST

Beneficiary Name: _____ Amount of Wire: \$ _____

Beneficiary Bank: _____ Account Number: _____

City and Sate: _____

Beneficiary Bank Transit (ABA) #: _____ Beneficiary Bank Code (Swift, Sort, Chip, etc.): _____
(For International Wire Only)

Intermediary Bank: _____ Transit (ABA) #: _____

For Further Credit to: _____

Special Instruction: _____

By signing below, I (we) acknowledge and agree that my (our) funds transfer request shall be processed in accordance with and subject to the terms and conditions set forth in the agreements(s) covering funds transfer service(s), which agreements(s) were previously received and executed by me (us).

Authorized Signature: _____ 2nd Signature (If Required): _____

Print Name/Title: _____ Print Name/Title: _____

Telephone # _____ Telephone # _____

EXHIBIT C

BORROWING BASE CERTIFICATE

Borrower: Perficient, Inc. and Perficient Canada, Inc. Lender: Silicon Valley Bank

Commitment Amount: \$6,000,000

ACCOUNTS RECEIVABLE		
1.	Accounts Receivable Book Value as of	\$ _____
2.	Additions (please explain on reverse)	\$ _____
3.	TOTAL ACCOUNTS RECEIVABLE	\$ _____
ACCOUNTS RECEIVABLE DEDUCTIONS (without duplication)		
4.	Amounts over 90 days due	\$ _____
5.	Balance of 50% over 90 day accounts	\$ _____
6.	Credit balances over 90 days	\$ _____

7. Concentration Limits	\$
8. Foreign Accounts	\$
9. Governmental Accounts	\$
10. Contra Accounts	\$
11. Promotion or Demo Accounts	\$
12. Intercompany/Employee Accounts	\$
13. Credit Card Receiveable	\$
14. Other (please explain on reverse)	\$
15. TOTAL ACCOUNTS RECEIVABLE DEDUCTIONS	\$
16. Eligible Accounts (#3 minus #15)	\$
17. LOAN VALUE OF ACCOUNTS (80% of #16)	\$

BALANCES

18. Maximum Loan Amount	\$
19. Total Funds Available (Lesser of #18 or #17)	\$
20. Present balance owing on Line of Credit	\$
21. Outstanding under Sublimits/Reserves	\$
22. RESERVE POSITION (#19 minus #20 and #21)	\$

The undersigned represents and warrants that this is true, complete and correct, and that the information in this Borrowing Base Certificate complies with the representations and warranties in the Loan and Security Agreement between the undersigned and Silicon Valley Bank.

COMMENTS:

By:

Authorized Signer

EXHIBIT D

COMPLIANCE CERTIFICATE

TO:

SILICON VALLEY BANK

FROM:

PERFICIENT, INC. and PERFICIENT CANADA, INC.

The undersigned authorized officer of Perficient, Inc. and Perficient Canada, Inc. certifies that under the terms and conditions of the Loan and Security Agreement between Borrower and Bank (the "Agreement"), (i) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below and (ii) all representations and warranties in the Agreement are true and correct in all material respects on this date. Attached are the required documents supporting the certification. The Officer certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) consistently applied from one period to the next except as explained in an accompanying letter or footnotes. The Officer acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered.

Please indicate compliance status by circling Yes/No under "Complies" column.

Reporting Covenants	Required	Complies	
Interim financial statements + CC	Monthly within 30 days	Yes	No
Annual (Audited)	FYE within 120 days	Yes	No
A/R, A/P & BBC	Monthly within 30 days	Yes	No
Financial Covenants	Required	Actual	Complies
Minimum Quick Ratio (through March 31, 2004)	1.25:1.0	____:1.0	Yes No

Minimum Quick Ratio (after March 31, 2004)
Minimum Tangible Net Worth

1.50:1.0
\$ 3,000,000 \$ _____:1.0 Yes No
Yes No

Have there been updates to Borrower's intellectual property, if appropriate?

Yes No

Borrower only has deposit accounts located at the following institutions:

BANK USE ONLY

Comments Regarding Exceptions: See Attached.

Received by:

AUTHORIZED SIGNER

Sincerely,

Date:

Signature

Verified:

AUTHORIZED SIGNER

Title

Date:

Date

Compliance Status: Yes No

EXHIBIT E

FORM OF LANDLORD'S CONSENT

RECORDING REQUESTED BY
AND WHEN RECORDED RETURN TO:
SILICON VALLEY BANK
3003 Tasman Drive
Santa Clara, CA 95054
Attn: Loan Services

CONSENT TO REMOVAL OF PERSONAL PROPERTY

KNOW ALL PERSONS BY THESE PRESENTS:

(a) The undersigned has an interest as owner and landlord in the following described real property (the "Real Property"): **SEE ATTACHMENT 1 ATTACHED HERETO FOR FULL LEGAL DESCRIPTION**, commonly known as 1120 S. Capital of Texas Highway, Building 3, Suite 220, Austin, Texas 78746.

(b) Perficient, Inc. and Perficient Canada, Inc. (collectively, the "Borrower"), have entered into or will enter into a Loan and Security Agreement with Silicon Valley Bank ("Bank") dated as of the Effective Date (as therein defined) (as amended and supplemented from time to time, the "Loan Agreement"). As a condition to entering into the Loan Agreement, require that the undersigned consent to the removal by Bank of the equipment and other assets covered by the Loan Agreement (hereinafter called "Equipment") from the Real Property.

NOW, THEREFORE, the undersigned consents to the placing of the Equipment on the Real Property, and agrees with Bank as follows:

1. The undersigned waives and releases each and every right which undersigned now has, under applicable law or by virtue of the lease for the Real Property now in effect, to levy or distrain upon for rent, in arrears, in advance or both, or to claim or assert title to the Equipment that is already on said Real Property, or may hereafter be delivered or installed thereon.

2. The Equipment shall be considered to be personal property and shall not be considered part of the Real Property regardless of whether or by what means it is or may become attached or affixed to the Real Property.

3. The undersigned will permit Bank, or its agent or representative, to enter upon the Real Property for the purpose of exercising any right they may have under the terms of the Loan Agreement or otherwise, including, without limitation, the right to remove the Equipment; provided, however, that if Bank, in removing the Equipment damage any improvements of the undersigned on the Real Property, Bank will, at its expense, cause same to be repaired.

4. This agreement shall be binding upon the heirs, successors and assigns of the undersigned and shall inure to the benefit of each Bank and its respective successors and assigns.

IN WITNESS WHEREOF, the undersigned has executed this instrument at , this day of ,200 .

By: _____

Title: _____

INTELLECTUAL PROPERTY SECURITY AGREEMENT

This Intellectual Property Security Agreement dated as of the Effective Date (as defined in the Loan Agreement) is between SILICON VALLEY BANK ("Bank") and PERFICIENT, INC., ("Grantor").

RECITALS

A. Bank will make advances to Grantor ("Loans") as described in the Loan and Security Agreement (the "Loan Agreement"), but only if Grantor grants Bank a security interest in its Copyrights, Trademarks, Patents, and Mask Works and other intellectual property (the "Intellectual Property Collateral").

B. Grantor has granted Bank a security interest in all of its right, title and interest, presently existing or later acquired to all the Collateral.

AGREEMENT

Grantor grants Bank a security interest in all of its right, title and interest in its Intellectual Property Collateral (such as the Copyrights, Patents, Trademarks and Mask Works listed on Schedules A, B, C and D), and all proceeds (such as license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements rights throughout the world and all reissues, divisions, continuations, renewals, extensions and continuations-in-part.

This security interest is granted in conjunction with the security interest granted under the Loan Agreement. Bank's rights and remedies in the security interest are in addition to those in the Loan Agreement and the other Loan Documents, and those available in law or equity. Bank's rights powers and interests are cumulative with every right, power or remedy provided here. Bank's exercise of its rights, powers or remedies in this Agreement, the Loan Agreement or any other Loan Document, does not preclude the simultaneous or later exercise of any or all other right, power or remedy.

GRANTOR:

BANK

PERFICIENT, INC.

SILICON VALLEY BANK

By:

By:

Name:

Name:

Its:

Its:

EXHIBIT A

Copyrights

Description	Registration/Application Number	Registration/Application Date

EXHIBIT B

Patents

Description	Registration/Application Number	Registration/Application Date

EXHIBIT C

Trademarks

Description	Registration/Application Number	Registration/Application Date

EXHIBIT D

Mask Works

Description	Registration/Application Number	Registration/Application Date

INTELLECTUAL PROPERTY SECURITY AGREEMENT

This Intellectual Property Security Agreement dated as of the Effective Date (as defined in the Loan Agreement) is between SILICON VALLEY BANK ("Bank") and PERFICIENT CANADA, INC., ("Grantor").

RECITALS

A. Bank will make advances to Grantor ("Loans") as described in the Loan and Security Agreement (the "Loan Agreement"), but only if Grantor grants Bank a security interest in its Copyrights, Trademarks, Patents, and Mask Works and other intellectual property (the "Intellectual Property Collateral").

B. Grantor has granted Bank a security interest in all of its right, title and interest, presently existing or later acquired to all the Collateral.

AGREEMENT

Grantor grants Bank a security interest in all of its right, title and interest in its Intellectual Property Collateral (such as the Copyrights, Patents, Trademarks and Mask Works listed on Schedules A, B, C and D), and all proceeds (such as license royalties and proceeds of infringement suits), the right to sue for past, present and future infringements rights throughout the world and all reissues, divisions, continuations, renewals, extensions and continuations-in-part.

This security interest is granted in conjunction with the security interest granted under the Loan Agreement. Bank's rights and remedies in the security interest are in addition to those in the Loan Agreement and the other Loan Documents, and those available in law or equity. Bank's rights powers and interests are cumulative with every right, power or remedy provided here. Bank's exercise of its rights, powers or remedies in this Agreement, the Loan Agreement or any other Loan Document, does not preclude the simultaneous or later exercise of any or all other right, power or remedy.

GRANTOR:

BANK

PERFICIENT CANADA, INC.

SILICON VALLEY BANK

By:

By:

Name:

Name:

Its:

Its:

EXHIBIT A

Copyrights

Description	Registration/Application Number	Registration/Application Date
<hr/>	<hr/>	<hr/>

EXHIBIT B

Patents

Description	Registration/Application Number	Registration/Application Date
<hr/>	<hr/>	<hr/>

EXHIBIT C

Trademarks

Description	Registration/Application Number	Registration/Application Date
<hr/>	<hr/>	<hr/>

EXHIBIT D

Mask Works

Description	Registration/Application Number	Registration/Application Date
<hr/>	<hr/>	<hr/>

CORPORATE BORROWING RESOLUTION

Borrower: PERFICIENT, INC.

Silicon Valley Bank
3003 Tasman Drive
Santa Clara, CA 95054

I, the Secretary or Assistant Secretary of PERFICIENT, INC. ("Borrower"), certify that Borrower is a corporation existing under the laws of the State of Delaware.

I certify that at a meeting of Borrower's Directors (or by other authorized corporate action) duly held or taken, resolutions substantially similar to each of the following resolutions were adopted.

It is resolved that any one of the following officers of Borrower, whose name, title and signature is below:

NAME	TITLE	SIGNATURE
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>
<hr/>	<hr/>	<hr/>

may act for Borrower and:

Borrow Money. Borrow money from Silicon Valley Bank ("Bank").

Execute Loan Documents. Execute any loan documents Bank requires.

Grant Security. Grant Bank a security interest in any of Borrower's assets.

Negotiate Items. Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.

Letters of Credit. Apply for letters of credit from Bank.

Foreign Exchange Contracts. Execute spot or forward foreign exchange contracts.

Issue Warrants. Issue warrants for Borrower's stock.

Further Acts. Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreements that waive Borrowers right to a jury trial) they think necessary to effectuate these Resolutions.

Further resolved that all acts authorized by these Resolutions and performed before they were adopted are ratified. These Resolutions remain in effect and Bank may rely on them until Bank receives written notice of their revocation.

I certify that the persons listed above are Borrower's officers with the titles and signatures shown following their names and that these resolutions have not been modified are currently effective.

X

Secretary or Assistant Secretary

Date:

X

If the certifying officer is designated as a signer in these resolutions then another corporate officer must also sign.

CORPORATE BORROWING RESOLUTION

Borrower: PERFICIENT CANADA, INC.

Silicon Valley Bank
3003 Tasman Drive
Santa Clara, CA 95054

I, the Secretary or Assistant Secretary of PERFICIENT CANADA, INC. ("Borrower"), certify that Borrower is a corporation existing under the laws of the Country of _____, State of _____.

I certify that at a meeting of Borrower's Directors (or by other authorized corporate action) duly held or taken, resolutions substantially similar to each of the following resolutions were adopted.

It is resolved that any one of the following officers of Borrower, whose name, title and signature is below:

NAME	TITLE	SIGNATURE
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

may act for Borrower and:

Borrow Money. Borrow money from Silicon Valley Bank ("Bank").

Execute Loan Documents. Execute any loan documents Bank requires.

Grant Security. Grant Bank a security interest in any of Borrower's assets.

Negotiate Items. Negotiate or discount all drafts, trade acceptances, promissory notes, or other indebtedness in which Borrower has an interest and receive cash or otherwise use the proceeds.

Letters of Credit. Apply for letters of credit from Bank.

Foreign Exchange Contracts. Execute spot or forward foreign exchange contracts.

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Further Acts. Designate other individuals to request advances, pay fees and costs and execute other documents or agreements (including documents or agreements that waive Borrowers right to a jury trial) they think necessary to effectuate these Resolutions.

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I certify that the persons listed above are Borrower's officers with the titles and signatures shown following their names and that these resolutions have not been modified are currently effective.

X

Secretary or Assistant Secretary

Date:

X

If the certifying officer is designated as a signer in these resolutions then another corporate officer must also sign.



SILICON VALLEY BANK

PRO FORMA INVOICE FOR LOAN CHARGES

BORROWER: Perficient, Inc., and Perficient Canada, Inc.

LOAN OFFICER:

DATE: , 2003

Facility Fee \$ 9,000

Outside Counsel Fees

TOTAL FEE DUE

\$

Please indicate the method of payment:

// A check for the total amount is attached.

// Debit DDA # for the total amount.

// Loan proceeds

BORROWER:

BANK

PERFICIENT, INC.

SILICON VALLEY BANK

By: _____

By: _____

Name: _____

Account Officer

Its: _____

Date: _____

PERFICIENT CANADA, INC.

By: _____

Name: _____

Its: _____

QuickLinks

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