



Form 10-K

PERFICIENT INC - PRFT

Filed: March 31, 2006 (period: December 31, 2005)

Annual report which provides a comprehensive overview of the company for the past year

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

FORM 10-K

(Mark one)

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

For the fiscal year-ended December 31, 2005

or

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

For the transition period from _____ to _____

Commission file number 001-15169

PERFICIENT, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

No. 74-2853258

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

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

(Address of principal executive offices)

(512) 531-6000

(Registrant's telephone number, including area code)

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

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

Common Stock, \$0.001 par value

(Title of Class)

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

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

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

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

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

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

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

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PART I

Item 1. Business.

Overview

We are a rapidly growing information technology consulting firm serving Global 2000 and midsize companies throughout the United States. We help our clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. We design, build and deliver eBusiness solutions using a core set of software products developed by our partners. Our solutions include custom applications, portals and collaboration, eCommerce, online customer management, enterprise content management, business intelligence, business integration, mobile technology, technology platform implementations and service oriented architectures and enterprise service bus. Our solutions enable our clients to operate a real-time enterprise that dynamically adapts business processes and the systems that support them to the changing demands of an increasingly global, Internet-driven and competitive marketplace.

Through our experience in developing and delivering eBusiness solutions for more than 500 Global 2000 and midsize companies, we have acquired significant domain expertise that we believe differentiates our firm. We use small, expert project teams that we believe deliver high-value, measurable results by working collaboratively with clients and their partners through a user-centered, technology-based and business-driven solutions methodology. We believe this approach enhances return-on-investment for our clients by significantly reducing the time and risk associated with designing and implementing eBusiness integration solutions.

We believe we have built the leading independent information technology consulting firm in the central United States. We serve our central United States customers from our network of twelve offices throughout the central United States and Canada. In addition, we have over 100 colleagues who are part of “national” business units, who travel extensively to serve clients throughout the United States. Our future growth plan includes expanding our business throughout the United States, both through expansion of our national travel practices and through opening new offices, both organically and through acquisitions, in areas outside the central United States. In 2003, 2004 and 2005, \$29,169,721, \$57,735,199 and \$95,721,425 of our revenue, respectively, was derived from customers in the United States while \$905,905, \$1,112,474 and \$1,275,776 of our revenue, respectively, was derived from customers in Canada. In addition, \$116,296 of our revenue in 2003 was derived from customers in the United Kingdom. We had assets located in the United States of \$19,935,222, \$62,243,063 and \$84,600,070 in 2003, 2004 and 2005, respectively and assets located in Canada of \$243,379, \$300,662 and \$334,831 in 2003, 2004 and 2005, respectively. We also had assets of \$81,382 and \$38,640 located in the United Kingdom in 2003 and 2004, respectively.

We place strong emphasis on building lasting relationships with clients. Over the past three years ending December 31, 2005, an average of 85% of revenue, excluding from the calculation for any single period revenue from acquisitions completed in that single period, was derived from customers that were clients in the prior year. We have also built meaningful partnerships with software providers, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our cost of sales and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements.

We are expanding through a combination of organic growth and acquisitions. We believe that information technology consulting is a fragmented industry and that there are a substantial number of privately held information technology consulting firms in our target markets that can be acquired on financially accretive terms. We have a track record of successfully identifying, executing and integrating acquisitions that add strategic value to our business. Over the past six years, we have acquired and integrated nine privately held information technology consulting firms, three of which were acquired in 2004, and two of which were acquired in 2005. We believe that we can achieve significantly faster growth in revenues and profitability through a combination of organic growth and acquisitions than we could through organic growth alone.

Industry Background

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

United States Economic Recovery. The years 2001 and 2002 saw a protracted downturn in information technology spending as a result of an economic recession in the United States and the collapse of the Internet “bubble.” The information technology consulting industry began to experience a recovery in the second half of 2003 which continued through 2005. The industry is benefiting from the overall improvement in the United States economy as well as a need by businesses to continue the transformation that they began in the 1990s with the commercialization of the Internet. It is expected that information technology services spending will continue to increase in the foreseeable future. According to independent market research firm Gartner Dataquest, total information technology services spending in North America is expected to achieve a 6.5% compound annual growth rate through 2009, resulting in a \$347 billion market.

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

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

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

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

These factors are driving increased spending on software and related consulting services in the areas of application integration, middleware and portals, or AIMP, as these segments play critical roles in the integration between new and extant systems and the extension of those systems to customers, suppliers and partners via the Internet. Companies are expected to increase software spending on integration broker suites, enterprise portal services, application platform suites and message-oriented middleware. Gartner Dataquest, or Gartner, an independent market research firm, projects that growth in these specific sub-segments within the AIMP software area will outpace general software spending. Gartner expects worldwide spending in these four specific software sub-segments to increase from approximately \$4.33 billion in 2004 to \$6.67 billion in 2007, a compound annual growth rate of 15.5%. As companies increase spending on software, their overall spending on services will also increase, often by a multiplier of each dollar spent on software. For example, IDC had projected that in 2005, across 17 industries, spending on services, as a multiple of software spending, will range from a high of 3.19 to a low of 1.28, with an average of 2.14.

Competitive Strengths

We believe our competitive strengths include:

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

- § *Delivery Model and Methodology.* We believe our significant domain expertise enables us to provide high-value solutions through small, expert project teams that deliver measurable results by working collaboratively with clients through a user-centered, technology-based and business-driven solutions methodology. Our eNable Methodology, a unique and proven execution process map we developed, allows for repeatable, high quality services delivery. The eNable Methodology leverages the thought leadership of our senior strategists and practitioners to support the client project team and focuses on transforming our clients' business processes to provide enhanced customer value and operating efficiency, enabled by Web technology. As a result, we believe we are able to offer our clients the dedicated attention that boutiques usually provide and the delivery and project management that larger firms usually offer.
- § *Client Relationships.* We have built a track record of quality solutions and client satisfaction through the timely, efficient and successful completion of numerous projects for our clients. As a result, we have established long-term relationships with many of our clients who continue to engage us for additional projects and serve as excellent references for us. Over the past three years ending December 31, 2005, an average of 85% of revenue, excluding from the calculation for any single period revenue from acquisitions completed in that single period, was derived from customers that were clients in the prior year.
- § *Vendor Partnerships and Endorsements.* We have built meaningful partnerships with software providers, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our cost of sales and sales cycle times and increase win rates by leveraging our partners' marketing efforts and endorsements. We also serve as a sales channel for our partners, helping them market and sell their software products. We are a Premier IBM business partner, a TeamTIBCO partner, a Microsoft Gold Certified Partner and a Documentum Select Services Team Partner.
- § *Geographic Focus.* We believe we have built the leading independent information technology consulting firm in the central United States. We serve our central United States customers from our network of twelve offices throughout the central United States and Canada. In addition, we have over 100 colleagues who are part of "national" business units, who travel extensively to serve clients throughout the United States. Our future growth plan includes expanding our business throughout the United States, both through expansion of our national travel practices and through opening new offices, both organically and through acquisition, in areas outside the central United States. We believe our central United States network provides a competitive platform from which to expand nationally.
- § *Emerging Offshore Capability.* We maintain a small offshore development facility in Bitoli, Macedonia. Through this facility we contract with a team of professionals with expertise in IBM, TIBCO and Microsoft technologies and with specializations that include application development, adapter and interface development, quality assurance and testing, monitoring and support, product development, platform migration, and portal development. This expertise, as well as our partnerships with offshore services providers based in India, will enable us to more effectively deliver our solutions.

Our Solutions

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

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

- § improve the quality and lower the cost of customer acquisition and care through Web-based customer self-service and provisioning;
- § reduce supply chain costs and improve logistics by flexibly and quickly integrating processes and systems and making relevant real-time information and applications available online to suppliers, partners and distributors;
- § increase the effectiveness and value of legacy enterprise technology infrastructure investments by enabling faster application development and deployment, increased flexibility and lower management costs; and
- § increase employee productivity through better information flow and collaboration capabilities and by automating routine processes to enable focus on unique problems and opportunities.

Our eBusiness integration solutions include the following:

- § *Custom applications.* We design, develop, implement and integrate custom application solutions that deliver enterprise-specific functionality to meet the unique requirements and needs of our clients. Perficient's substantial experience with platforms including J2EE, .Net and open-source - plus our flexible delivery structure - enables enterprises of all types to leverage cutting-edge technologies to meet business-driven needs.
- § *Enterprise portals and collaboration.* We design, develop, implement and integrate secure and scalable enterprise portals for our clients and their customers, suppliers and partners that include searchable data systems, collaborative systems for process improvement, transaction processing, unified and extended reporting and content management and personalization.
- § *eCommerce.* We design, develop and implement secure and reliable ecommerce infrastructures that dynamically integrate with back-end systems and complementary applications that provide for transaction volume scalability and sophisticated content management.
- § *Online customer relationship management (eCRM).* We design, develop and implement advanced eCRM solutions that facilitate customer acquisition, service and support, sales, and marketing by understanding our customers' needs through interviews, facilitated requirements gathering sessions and call center analysis, developing an iterative, prototype driven solution and integrating the solution to legacy processes and applications.
- § *Enterprise content management.* We design, develop and implement Enterprise Content Management (ECM) solutions that enable the management of all unstructured information regardless of file type or format. Our ECM solutions can facilitate the creation of new content and/or provide easy access and retrieval of existing digital assets from other enterprise tools such as enterprise resource planning (ERP), customer relationship management or legacy applications. Perficient's ECM solutions include Enterprise Imaging and Document Management, Web Content Management, Digital Asset Management, Enterprise Records Management, Compliance and Control, Business Process Management and Collaboration and Enterprise Search.
- § *Business intelligence.* We design, develop and implement business intelligence solutions that allow companies to interpret and act upon accurate, timely and integrated information. By classifying, aggregating and correlating data into meaningful business information, business intelligence solutions help our clients make more informed business decisions. Our business intelligence solutions allow our clients to transform data into knowledge for quick and effective decision making and can include information strategy, data warehousing and business analytics and reporting.
- § *Business integration.* We design, develop and implement business integration solutions that allow our clients to integrate all of their business processes end-to-end and across the enterprise. Truly innovative companies are extending those processes, and eliminating functional friction, between the enterprise and core customers and partners. Our business integration solutions can extend and extract 'Green-Screen' applications, reduce infrastructure strains and cost, Web-enable legacy applications, provide real-time insight into business metrics and introduce efficiencies for customers, suppliers and partners.

- § *Mobile technology solutions.* We design, develop and implement mobile technology solutions that deliver wireless capabilities to carriers, Mobile Virtual Network Operators (MVNO), Mobile Virtual Network Enablers (MVNE), and the enterprise. Perficient's expertise with wireless technologies such as SIP, MMS, WAP, and GPRS are coupled with our deep expertise in mobile content delivery. Our secure and scalable solutions can include mobile content delivery systems; wireless value-added services including SIP, IMS, SMS, MMS and Push-to-Talk; custom developed applications to pervasive devices including Symbian, WML, J2ME, MIDP, Linux; and customer care solutions including provisioning, mediation, rating and billing.
- § *Technology platform implementations.* We design, develop and implement technology platform implementations that allow our clients to establish a robust, reliable Internet-based infrastructure for integrated business applications, which extend enterprise technology assets to employees, customers, suppliers and partners. Our Platform Services include application server selection, architecture planning, installation and configuration, clustering for availability, performance assessment and issue remediation, security services and technology migrations.
- § *Service oriented architectures and enterprise service bus.* We design, develop and implement service oriented architecture and enterprise service bus solutions that allow our clients to quickly adapt their business processes to respond to new market opportunities or competitive threats by taking advantage of business strategies supported by flexible business applications and IT infrastructures.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Solutions Methodology

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

- § iterative and results oriented;
- § centered around a flexible and repeatable framework;
- § collaborative and customer-centered in that we work with not only our clients but with our clients' customers in developing our solutions;
- § focused on delivering high value, measurable results; and
- § grounded by industry leading project management.

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

Our Strategy

Our goal is to be the premier independent eBusiness consulting firm in the United States. To achieve our goal, our strategy is to:

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

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

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

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

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

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

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

Sales and Marketing

We have a 24 person direct solutions-oriented sales force that sells from 10 of our 12 offices. Our sales team is experienced and connected through a common services portfolio, sales process and performance management system. Our sales process utilizes project pursuit teams that include those of our information technology professionals best suited to address a particular prospective client's needs. We reward our sales force for developing and maintaining relationships with our clients and seeking out follow-on engagements as well as leveraging those relationships to forge new ones in different areas of the business and with our clients' business partners. More than 83% of our sales are executed by our direct sales force.

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

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

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

Clients

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

- § IBM Corporation;
- § Cingular;
- § Assurant/Fortis, Inc.;
- § Wachovia Corporation;
- § Centene Corporation;
- § Union Bank of California;
- § Tufts Health Plan;
- § Nationwide Services Company;
- § Anheuser-Busch; and
- § EMC Corporation.

Competition

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

- § small local consulting firms that operate in no more than one or two geographic regions;
- § regional consulting firms such as Software Architects, Inc., Haverstick Consulting, Inc. and Quilogy, Inc.;
- § national consulting firms, such as Answerthink, Inc., Accenture, BearingPoint, Inc., Ciber, Inc., Electronic Data Systems Corporation and Sapient Corporation;
- § in-house professional services organizations of software companies; and
- § to a limited extent, offshore providers such as Cognizant Technology Solutions Corporation, Infosys Technologies Limited, Satyam Computer Services Limited and Wipro Limited.

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

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

Colleagues

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

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

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

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

Training. To ensure continued development of our technical staff, we place a high priority on training. We offer extensive training for our professionals around industry-leading technologies. We utilize our education practice and IBM-certified advanced training facility in Chicago, Illinois to provide continuing education and professional development opportunities for our colleagues.

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

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

Culture

Culture Committee. We continue to build our corporate culture around a common set of values based on expertise, honesty and teamwork. Our Culture Committee consists of a member from each of our offices and focuses on defining and supporting activities and events that bind our colleagues together and promote an *esprit de corps*. We believe in a strong corporate culture and make a substantial investment in supporting activities and events through an annual budget that our Culture Committee may allocate in its sole discretion. Some activities have included a rewards and recognition program, work-life balance programs and internal social events among our colleagues.

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

- § we believe in long-term client and partner relationships built on investment in innovative solutions, delivering more value than the competition and a commitment to excellence;
- § we believe in growth and profitability and building meaningful scale;
- § we believe each of us is ultimately responsible for our own career development and has a commitment to mentor others;
- § we believe that Perficient has an obligation to invest in our consultants' training and education;
- § we believe the best career development comes on the job; and
- § we love challenging new work opportunities.

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

Knowledge Management

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

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

General Information

We were incorporated in Texas in September 1997 and reincorporated in Delaware in May 1999. Our principal executive offices are located at 1120 South Capital of Texas Highway, Building 3, Suite 220, Austin, Texas 78746 and our telephone number is (512) 531-6000. Our stock is traded on the NASDAQ National Market under the symbol "PRFT." Our website can be visited at www.perficient.com. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material, or furnish it to, the Securities and Exchange Commission. The information contained or incorporated in our website is not part of this document.

Item 1A. Risk Factors.

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

Risks Related to Our Business

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

The market for middleware and Internet software and services has changed rapidly over the last seven years. The market for middleware and Internet software and services expanded dramatically during 1999 and most of 2000, but declined significantly in 2001 and 2002. Market demand for Internet software and services began to stabilize and improve throughout 2003, 2004 and 2005, but this trend may not continue. Our future growth is dependent upon the demand for Internet software and services, and, in particular, the information technology consulting services we provide. Demand and market acceptance for middleware and Internet services are subject to a high level of uncertainty. Prolonged weakness in the middleware and Internet software and services industry has caused in the past, and may cause in the future, business enterprises to delay or cancel information technology projects, reduce their overall budgets and/or reduce or cancel orders for our services. This, in turn, may lead to longer sales cycles, delays in purchase decisions, payment and collection, and may also result in price pressures, causing us to realize lower revenues and operating margins. If companies cancel or delay their business and technology initiatives or choose to move these initiatives in-house, our business, financial condition and results of operations could be materially and adversely affected.

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

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

Our success will depend on attracting and retaining senior management and key personnel.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- continue to develop our technology expertise;
- enhance our current services;
- develop new services that meet changing customer needs;
- advertise and market our services; and
- influence and respond to emerging industry standards and other technological changes.

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

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

- security;
- intellectual property ownership;
- privacy;
- taxation; and
- liability issues.

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

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

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

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

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

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

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

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

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

In particular, a substantial portion of our solutions are built on IBM WebSphere platforms and a significant number of our clients are identified through joint selling opportunities conducted with IBM and through sales leads obtained from our relationship with IBM. Revenue from IBM was approximately 9%, 17% and 35% of total revenue for the years ended December 31, 2005, 2004 and 2003, respectively. The loss of our relationship with, or a significant reduction in the services we perform for IBM would have a material adverse effect on our business and results of operations.

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

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

- § demand for Internet software and services;
- § customer budget cycles;
- § changes in our customers' desire for our partners' products and our services;
- § pricing changes in our industry;
- § government regulation and legal developments regarding the use of the Internet; and
- § general economic conditions.

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

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

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

Our software revenue may fluctuate quarterly, leading to volatility in our results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

Item 3. Legal Proceedings.

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

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

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

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

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

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

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

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

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

PART II

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

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

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

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

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

Item 6. Selected Financial Data.

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

Revenue and cost of revenue are not directly comparable between periods because revenue and cost of revenue for 2001 is shown net of project related expenses, consisting of reimbursable expenses and other project related expenses. Revenue and cost of revenue were not reclassified for the year ended December 31, 2001 because it was impractical for the individual reimbursable expenses and other project related expenses to be reasonably identified. The characterization of project related expenses for 2001 has no effect on periods beginning after December 31, 2001.

	Year Ended December 31,				
	2001	2002	2003	2004	2005
Revenue:					
Services	\$ 20,416,643	\$ 20,391,587	\$ 24,534,617	\$ 43,330,757	\$ 83,739,808
Software	--	402,889	3,786,864	13,169,693	9,386,983
Reimbursable expenses	--	1,655,808	1,870,441	2,347,223	3,870,410
Total revenue	20,416,643	22,450,284	30,191,922	58,847,673	96,997,201
Cost of revenue(1):					
Project personnel costs	11,879,224	11,210,272	13,411,762	26,072,516	51,140,335
Software costs	--	343,039	3,080,894	11,341,145	7,722,166
Reimbursable expenses	--	1,655,808	1,870,441	2,347,223	3,870,410
Other project related expenses	--	330,100	453,412	267,416	1,845,873
Total cost of revenue	11,879,224	13,539,219	18,816,509	40,028,300	64,578,784
Gross margin	8,537,419	8,911,065	11,375,413	18,819,373	32,418,417
Selling, general and administrative	9,001,405	8,567,698	7,993,008	11,067,792	17,917,330
Depreciation	494,586	687,570	670,436	512,076	614,803
Intangibles amortization	15,312,280	1,285,524	610,421	696,420	1,611,082
Restructuring, severance, and other	766,477	579,427	--	--	--
Impairment charge	26,798,178	--	--	--	--
Income (loss) from operations	(43,835,507)	(2,209,154)	2,101,548	6,543,085	12,275,202
Interest income	31,093	17,732	3,286	2,564	15,296
Interest expense	(122,395)	(203,569)	(285,938)	(137,278)	(658,597)
Other income (expense)	(1,608)	(53)	(13,459)	32,586	42,561
Income (loss) before income taxes	(43,928,417)	(2,395,044)	1,805,437	6,440,957	11,674,462
(Provision) benefit for income taxes	42,261	--	(755,405)	(2,527,669)	(4,497,710)
Net income (loss)	<u>\$ (43,886,156)</u>	<u>\$ (2,395,044)</u>	<u>\$ 1,050,032</u>	<u>\$ 3,913,288</u>	<u>\$ 7,176,752</u>
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	<u>\$ (43,886,156)</u>	<u>\$ (4,230,803)</u>	<u>\$ 892,400</u>	<u>\$ 3,913,288</u>	<u>\$ 7,176,752</u>
Basic net income (loss) per share available to common stockholders	<u>\$ (7.01)</u>	<u>\$ (0.46)</u>	<u>\$ 0.08</u>	<u>\$ 0.22</u>	<u>\$ 0.33</u>
Diluted net income (loss) per share available to common stockholders	<u>\$ (7.01)</u>	<u>\$ (0.46)</u>	<u>\$ 0.07</u>	<u>\$ 0.19</u>	<u>\$ 0.28</u>
Shares used in computing basic net income (loss) per share	<u>6,261,053</u>	<u>9,173,657</u>	<u>11,364,203</u>	<u>17,648,575</u>	<u>22,005,154</u>
Shares used in computing diluted net income (loss) per share	<u>6,261,053</u>	<u>9,173,657</u>	<u>15,306,151</u>	<u>20,680,507</u>	<u>25,242,496</u>

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

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this annual report and in the documents that we incorporate by reference into

this annual report. This annual report may contain certain “forward-looking” information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in “Risk Factors.”

Overview

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

Services Revenue

Our services revenue is derived from professional services performed developing, implementing, integrating, automating and extending business processes, technology infrastructure and software applications. Most of our projects are performed on a time and materials basis, and a smaller amount of revenue is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 9.2% of our services revenue for the year ended December 31, 2005. For time and material projects, revenue is recognized and billed by multiplying the number of hours our professionals expend in the performance of the project by the established billing rates. For fixed fee projects, revenue is generally recognized using the proportionate performance method. Provisions for estimated profits or losses on uncompleted projects are made on a contract-by-contract basis and are recognized in the period in which such profits or losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. On many projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenue. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our customers, the total number of our projects that require travel, and whether our arrangements with our clients provide for the reimbursement of travel and other project related expenses.

Software Revenue

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

Cost of Revenue

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

Gross Margins

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

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist of cash and non-cash compensation for sales, executive and administrative employees, costs to comply with the Sarbanes-Oxley Act of 2002, professional fees for external auditing services, training, sales and marketing activities, investor relations, recruiting, travel costs and expenses, and miscellaneous expenses. Non-cash compensation includes stock compensation expenses arising from various option grants to employees with exercise prices below fair market value at the date of grant and compensation expense associated with unvested stock options assumed in business combinations. Such stock compensation is generally expensed across the vesting periods of the related equity grants. We work to minimize selling costs by focusing on repeat business with existing customers and by accessing sales leads generated by our software company partners, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our selling costs and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements.

Quarterly Fluctuations

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

Plans for Growth & Acquisitions

Our goal is to build a leading independent information technology consulting firm in the United States through, among other things, expanding our relationships with existing and new clients, leveraging our operations in the central United States to expand nationally and continuing to make disciplined acquisitions. We believe the United States represents an attractive market for growth, both organically and through acquisitions. As demand for our services grows, we believe we will attempt to increase the number of professionals in our 12 central United States and Canada offices and to add new offices throughout the United States, both organically and through acquisitions, to meet such demand and, as a result, increase our services revenue. In addition, we believe our track record for identifying attractive acquisitions and our ability to integrate acquired businesses helps us successfully complete acquisitions efficiently and productively, while continuing to offer quality services to our clients, including new clients resulting from the acquisitions.

Consistent with our strategy of growth through disciplined acquisitions, we have consummated five acquisitions since January 1, 2004: Genisys Consulting, Inc. on April 2, 2004; Meritage Technologies, Inc. on June 18, 2004; ZettaWorks Inc. on December 20, 2004; iPath Solutions, Ltd. on June 10, 2005 and Vivare, Inc. on September 2, 2005.

Results of Operations

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

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

Income before income taxes	6.5	11.4	12.5
Provision for income taxes	2.7	4.5	4.8
Net income	3.8%	6.9%	7.7%

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

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

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

Additionally, the increase in services revenue resulted from increases in average project size and quantity of projects. The average utilization rate of our professionals, excluding subcontractors, remained relatively stable at 83% for the year ended December 31, 2005. For the years ended December 31, 2005 and 2004, 9% and 17%, respectively, of our revenue was derived from sales to IBM. While the dollar amount of revenue from IBM has remained relatively constant over the past two years, the percentage of total revenue from IBM has decreased as a result of the Company's growth and corresponding customer diversification. Software revenue decreased 29% to \$9.4 million in 2005 from \$13.2 million in 2004 due to the fact that the spike in low gross margin sales during the fourth quarter of 2004 did not repeat in the fourth quarter of 2005. This software revenue was all from the sale of third party software except for approximately \$282,000 from the sale of internally developed software recognized in 2005. Reimbursable expenses increased 65% to \$3.9 million in 2005 from \$2.3 million in 2004.

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

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

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

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

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

Interest Expense. Interest expense increased 380% to approximately \$659,000 for the year ended December 31, 2005 compared to approximately \$137,000 during the year ended December 31, 2004. This increase in interest expense is due to the interest expense now being incurred on the newly funded acquisition line of credit which was drawn down in connection with the acquisitions of Meritage in June 2004 and ZettaWorks in December 2004, and on draws on the accounts receivable line of credit in connection with the acquisitions of iPath and Vivare. As of December 31, 2005, there was approximately \$2.7 million outstanding on the acquisition line of credit and approximately \$4.0 million outstanding on the accounts receivable line of credit. During 2005, we drew down \$12 million on the accounts receivable line of credit and repaid \$8 million.

Provision for Income Taxes. We accrue a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate decreased slightly to 38.5% for the year ended December 31, 2005 from 39.2% for the year ended December 31, 2004 as a result of a decrease in certain non-deductible expenses. We had deferred tax assets resulting from net operating and capital losses of acquired companies amounting to approximately \$2.8 million for which we had a valuation allowance of approximately \$2.3 million. We had additional deferred tax assets of approximately \$0.4 million from temporary differences between book and tax valuations. These combined deferred tax assets of \$0.9 million were off-set by deferred tax liabilities of \$0.7 million related to identifiable intangibles, goodwill, and cash to accrual adjustments from the Genisys acquisition. Any reversal of the valuation allowance on the deferred tax assets will be adjusted against goodwill and will not have an impact on our statement of operations. All of the net operating and capital losses relate to acquired entities, and as such are subject to annual limitations on usage under the "change in control" provisions of the Internal Revenue Code.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenue. Total revenue increased 95% to \$58.8 million for the year ended December 31, 2004 from \$30.2 million for the year ended December 31, 2003. Services revenue, excluding reimbursed expenses, increased 77% to \$43.3 million in 2004 from \$24.5 million in 2003. This increase was largely attributable to the acquisitions of Genisys, Meritage and ZettaWorks which combined accounted for approximately \$14.7 million of services revenue for the year ended December 31, 2004. Additionally, the increase in services revenue resulted from increases in average project size and quantity of projects. The utilization rate of our professionals, excluding subcontractors also increased to 83% for the year ended December 31, 2004 from 76% for the year ended December 31, 2003. For the years ended December 31, 2004 and 2003, 17% and 35%, respectively, of our revenue was derived from IBM. Software revenue increased 248% to \$13.2 million in 2004 from \$3.8 million in 2003 due to increased customer demand. Reimbursable expenses increased 25% to \$2.3 million in 2004 from \$1.9 million in 2003.

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

Gross Margin. Gross margin increased 65% to \$18.8 million for the year ended December 31, 2004 from \$11.4 million for the year ended December 31, 2003. Gross margin as a percentage of revenue, excluding reimbursed expenses, decreased to 33.3% in 2004 from 40.2% in 2003. The decrease in gross margin as a percentage of services and software revenue, excluding reimbursed expenses, is primarily due to the increase in software sales revenue in proportion to total revenue, which typically yields a lower margin than our services revenue. Services gross margin, excluding reimbursed expenses, decreased slightly to 39.2% in 2004 from 43.5% in 2003 primarily due to lower gross margins on consulting services contracts acquired in the acquisitions of Genisys, Meritage and ZettaWorks. Software gross margin decreased to 13.9% in 2004 from 18.6% in 2003 primarily as a result of fluctuations in selling prices to customers based on competitive pressures and fluctuations in vendor pricing based on market conditions at the time of the sales.

Selling, General and Administrative. Selling, general and administrative expenses increased 38% to \$11.1 million for the year ended December 31, 2004 from \$8.0 million for the year ended December 31, 2003 due primarily to the increases in sales personnel, management personnel, support personnel and facilities related to the acquisitions of Genisys, Meritage and ZettaWorks. However, selling, general and administrative expenses as a percentage of services revenue, excluding reimbursed expenses, decreased to 25.5% for the year ended December 31, 2004 from 32.6% for the year ended December 31, 2003. The decrease in selling, general and administrative expenses as a percentage of services revenue is the result of operational efficiencies and economies of scale as the Company has grown.

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

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

Interest Expense. Interest expense decreased 52% to approximately \$137,000 for the year ended December 31, 2004 compared to approximately \$286,000 during the year ended December 31, 2003. This decrease in interest expense is due to decreases in the principal balances on the notes payable issued in our acquisition of Javelin Solutions, Inc. in 2002 and our accounts receivable line of credit since 2003. These decreasing balances are partially off-set by the interest expense now being incurred on the newly funded acquisition line of credit which was drawn down in connection with the acquisitions of Meritage in June 2004 and ZettaWorks in December 2004.

Provision for Income Taxes. We accrued a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate decreased to 39.2% for the year ended December 31, 2004 from 41.8% for the year ended December 31, 2003 as a result of a decrease in certain non-deductible expenses. We had deferred tax assets resulting from net operating losses of acquired companies amounting to approximately \$3.3 million for which we had a valuation allowance of \$3.0 million. We had additional deferred tax assets of approximately \$0.5 million from temporary differences between book and tax valuations. These combined deferred tax assets of \$0.8 million were completely off-set by deferred tax liabilities of \$0.8 million related to identifiable intangibles and cash to accrual adjustments from the Genisys acquisition. Any reversal of the valuation allowance on the deferred tax assets will be adjusted against goodwill and will not have an impact on our statement of operations. All of the net operating losses relate to acquired entities, and as such are subject to annual limitations on usage under the "change in control" provisions of the Internal Revenue Code.

Liquidity And Capital Resources

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

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

Net Cash Provided By Operating Activities

We expect to fund our operations during 2006 from cash generated from operations and short-term borrowings as necessary from our credit facility. We believe that these capital resources will be sufficient to meet our needs for at least the next twelve months. Net cash generated by operations for the year ended December 31, 2005 increased 90% to \$7.7 million from \$4.0 million for the year ended December 31, 2004. This net cash generated by operations for the years ended December 31, 2005 and 2004 included tax benefits from stock option exercises in the amounts of approximately \$2.3 million and approximately \$342,000, respectively, which will be reported as cash provided by financing activities in future periods as a result of the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R, *Share-Based Payment* on January 1, 2006. Net cash generated by operations for the year ended December 31, 2004 increased 114% to \$4.0 million from \$1.9 million for the year ended December 31, 2003.

Accounts receivable, net of allowance for doubtful accounts, totaled \$23.3 million at December 31, 2005, representing approximately 69 days of sales outstanding, excluding end-of-quarter software sales, compared to \$20.0 million, or 65 days at December 31, 2004.

A significant amount of our revenue is derived from IBM. Accordingly, our accounts receivable generally includes significant amounts due from IBM. As of December 31, 2005, approximately 9% of our accounts receivable was due from IBM.

Net Cash Used in Investing Activities

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

Net Cash From Financing Activities

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

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

Availability of Funds from Bank Line of Credit Facilities

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

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

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

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

Contractual Obligations

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

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

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

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
Long-term debt obligations, including estimated interest	\$ 3,122	\$ 1,733	\$ 1,389	\$ --	\$ --
Operating lease obligations	3,922	1,203	1,662	983	74
Total	\$ 7,044	\$ 2,936	\$ 3,051	\$ 983	\$ 74

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

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

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

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

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

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

Critical Accounting Policies

Revenue Recognition and Allowance for Doubtful Accounts

Consulting revenues are comprised of revenue from professional services fees recognized primarily on a time and materials basis as performed. For fixed fee engagements, revenue is recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. Our normal payment terms are net 30 days, although there are some exceptions. Reimbursements for out-of-pocket expenses are included in gross revenue. Revenue from the sale of third-party software is recorded on a gross basis provided that we act as the principal in the transaction. In the event we do not meet the requirements to be considered the principal in the software sale transaction, we record the revenue on a net basis. There is no effect on net income between recording the software sales on a gross basis versus a net basis.

We also recognize revenue in accordance with Statement of Position ("SOP") 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9, and Securities and Exchange Commission Staff Accounting Bulletin ("SAB") 101, *Revenue Recognition in Financial Statements* as revised by SAB 104. Revenue is recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) acceptance has occurred, and (4) collectibility is deemed probable. We determine the fair value of each element in the arrangement based on vendor-specific objective evidence ("VSOE") of fair value. VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. We follow very specific and detailed guidelines, discussed above, in determining revenues; however, certain judgments and estimates are made and used to determine revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue recognized for any period if different conditions were to prevail. For example, in determining whether collection is probable, we assess our customers' ability and intent to pay. Our actual experience with respect to collections could differ from our initial assessment if, for instance, unforeseen declines in the overall economy occur and negatively impact our customers' financial condition.

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

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

We assess our allowance for doubtful accounts at each financial reporting date based on expected losses on uncollectible accounts receivable with known facts and circumstances for the respective period.

Goodwill, Other Intangible Assets and Impairment of Long-Lived Assets

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

Business acquisitions typically result in goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. The determination of the value of such intangible assets requires us to make estimates and assumptions that affect our consolidated financial statements. We assess potential impairments to intangible assets on an annual basis or when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of the businesses, market conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill is impaired. Any resulting impairment loss could have an adverse impact on our results of operations by decreasing net income.

We evaluate long-lived tangible assets and intangible assets other than goodwill in accordance with SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets*, which we adopted as of January 1, 2002. Long-lived assets held and used are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be entirely recoverable. When such factors and circumstances exist, we compare the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. Management has determined that no impairment exists as of December 31, 2005.

Accounting for Stock-Based Compensation

We apply Accounting Principles Board ("APB") Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for our stock option plans. Accordingly, compensation cost is recognized only when options are granted below market price on the date of grant. Had compensation cost for our stock compensation plans been determined based on fair value at the grant dates for awards under these plans consistent with SFAS 123, *Accounting for Stock-Based Compensation*, our net income and earnings per share would have been reduced to pro forma amounts indicated in the notes to our financial statements.

In October 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, *Share-Based Payment*. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition of the fair value of employee stock incentive awards. We have evaluated the requirements under SFAS No. 123R and we expect the adoption to have a significant adverse impact on our consolidated statements of income and net income per share. See further explanation concerning this new standard in Recent Accounting Pronouncements below.

Income Taxes

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

Recent Accounting Pronouncements

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

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

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

- § A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
- § A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures based upon either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

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

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

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3* (“SFAS 154”). SFAS 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3 *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires restatement of prior period financial statements, unless impracticable, for changes in accounting principle. The retroactive application of a change in accounting principle should be limited to the direct effect of the change. Changes in depreciation, amortization or depletion methods should be accounted for as a change in accounting estimate. Corrections of accounting errors will be accounted for under the guidance contained in APB Opinion No. 20. The effective date of this new pronouncement is for fiscal years beginning after December 15, 2005 and prospective application is required. We do not expect the adoption of SFAS 154 to have a material impact on our consolidated financial statements.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements.

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

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

Exchange Rate Sensitivity

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

Interest Rate Sensitivity

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

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

Item 8. Financial Statements and Supplementary Data.

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

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

None.

Item 9A. Disclosure Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control over Financial Reporting

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

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

Lack of segregation of duties, with certain accounting personnel being assigned inappropriate access to the automated general ledger system, such as in our procure to pay and order to cash processes;

§ The design of our internal control structure emphasized significant reliance on manual detect controls, primarily performed by a single individual, and limited reliance on application and prevent controls;

§ Lack of detail review of key financial spreadsheets, including spreadsheets supporting journal entries affecting revenue such as unbilled revenue and deferred revenue.

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

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

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

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

Changes in Internal Controls

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

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Perficient, Inc. did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of a material weakness identified in management's assessment, based on criteria established in *Internal Control--Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Perficient, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

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

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

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

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

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

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

BDO Seidman, LLP

Houston, Texas
March 30, 2006

Item 9B. Other Information.

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

PART III

Item 10. Directors and Executive Officers of the Registrant.

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

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

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

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

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

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

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

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

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

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

Audit Committee of the Board of Directors

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

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

Codes of Conduct and Ethics

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

Section 16 Beneficial Ownership Reporting Compliance

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

Richard T. Kalbfleish VP of Finance and Administration

and, except that the following individuals failed to timely file a Statement of Change in Beneficial Ownership on Form 4:

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

Item 11. Executive Compensation.

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

Name and Principal Position	Year	Annual Compensation			Long Term Compensation Awards			All Other Compensation (\$)(4)
		Salary(\$)	Bonus(\$)	Other Annual Compensation\$(1)	Restricted Stock Awards\$(2)	Securities Underlying Options#(3)		
John T. McDonald	2005	\$ 250,000	\$ 338,359	\$ 16,273	--	--	\$ 420	
Chief Executive Officer	2004	\$ 237,500	\$ 355,408	\$ 12,959	\$ 1,104,250	400,000	\$ 420	
and	2003	\$ 225,000	\$ 200,048	\$ 3,000	--	425,000		
Chairman of the Board								
Jeffrey S. Davis	2005	\$ 228,000	\$ 197,301	\$ 9,489	--	--	\$ 420	
President and	2004	\$ 216,629	\$ 161,992	\$ 15,324	\$ 552,125	200,000	\$ 420	
Chief Operating Officer	2003	\$ 205,000	\$ 145,813	\$ 3,000	--	250,000		
Michael D. Hill	2005	\$ 110,000	\$ 41,696	\$ --	\$ 100,000	--	\$ 183	
Chief Financial Officer	2004	\$ 96,250	\$ 43,210	\$ --	--	50,000	\$ 160	
Richard T. Kalbfleish	2005	\$ 130,000	\$ 42,227	\$ --	\$ 100,000	--	\$ 580	
VP of Finance and Administration								

(1) Mr. McDonald's employment agreement, which was approved by the Board of Directors on March 29, 2004 and was in effect until December 31, 2005, specifies a salary increase to \$250,000 per annum if our net revenue per quarter equals or exceeds ten million dollars at any time following January 1, 2004.

- (2) In December 2004, Mr. McDonald was granted 175,000 shares of restricted stock and Mr. Davis was granted 87,500 shares of restricted stock, the fair market value of which was \$6.31 per share. The restricted stock shall vest over seven years in the following increments: 15% on December 15, 2006; 10% on each of December 15, 2007 and December 15, 2008; 15% on December 15, 2009; 25% on December 15, 2010; and 25% on December 15, 2011. This vesting schedule includes certain accelerated vesting provisions that provide for conversion to pro-rata or straight-line vesting over the seven year period in the event certain performance targets are met.

In December 2005, Mr. Hill and Mr. Kalbfleish were each granted 11,236 shares of restricted stock, the fair market price of which was \$8.90 per share. The restricted stock shall vest over six years in the following increments: 15% on December 15, 2006; 10% on each of December 15, 2007 and December 15, 2008; 15% on December 15, 2009; 25% on December 15, 2010; and 25% on December 15, 2011. This vesting schedule includes certain accelerated vesting provisions that provide for conversion to pro-rata or straight-line vesting over the six year period in the event certain performance targets are met.

There have been no dividends paid with respect to the restricted stock. The value of the restricted stock disclosed above as of December 31, 2005 was: Mr. McDonald, \$1,559,250; Mr. Davis, \$779,625; Mr. Hill, \$100,113; Mr. Kalbfleish, \$100,113. This amount was calculated by multiplying the number of shares subject to each award by the \$8.91 closing price of our Common Stock on December 30, 2005 as reported by the NASDAQ National Market.

- (3) In December 2004, Mr. McDonald was granted options to purchase 400,000 shares of our Common Stock with an exercise price of \$6.31. In December, 2004, Mr. Davis was granted options to purchase 200,000 shares of our Common Stock with an exercise price of \$6.31 per share. In January 2004, Mr. Hill was granted options to purchase 50,000 shares of our Common Stock with an exercise price of \$3.00 per share.
- (4) Value of benefit from the Company match portion of contributions to the Company's 401k Plan.

Option Grants in Last Fiscal Year to Named Executive Officers

There were no grants of stock options by us during the year ended December 31, 2005 to the named executive officers.

Option Exercises and Fiscal Year End Values

The following table sets forth information concerning the fiscal year-end number and value of unexercised options (market price of our Common Stock less the exercise price with respect to the named executive officers). No stock appreciation rights were outstanding as of December 31, 2005.

Name	Shares		Number of			
	Acquired on Exercise (#)	Value Realized (\$)	Securities Underlying Unexercised Options at December 31, 2005(#)		Value of Unexercised in-the-Money Options at December 31, 2005(\$)(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John T. McDonald	36,316	\$ 280,145	1,008,978	560,417	\$ 6,769,662	\$ 2,122,107
Jeffrey S. Davis	120,300	\$ 830,050	238,582	272,917	\$ 1,825,464	\$ 1,021,982
Michael D. Hill	--	\$ --	21,875	28,125	\$ 129,281	\$ 166,219
Richard T. Kalbfleish	--	\$ --	5,000	15,000	\$ 13,350	\$ 40,050

- (1) Based on the fair market value of Perficent's Common Stock at December 30, 2005 (\$8.91 per share), as reported on the NASDAQ National Market.

Compensation of Directors

The director compensation plan provides for the following:

- § Each new member of the board will receive an option for 15,000 shares, vesting ratably over a three-year period.
- § Each non-employee board member will receive \$500 for each board meeting attended.
- § Each audit committee member will receive \$1,250 for each audit committee meeting.
- § Each compensation committee member will receive \$500 for each compensation committee meeting.
- § The chairman of the audit committee will receive an additional \$5,000 quarterly and 5,000 vested options annually.
- § The chairman of the compensation committee will receive an additional \$2,500 quarterly.
- § Each non-employee board member will receive 5,000 vested options annually.
- § Each board member who serves on any committees of the board will receive an additional 5,000 vested options annually.

In 2005, Mr. Derrickson received \$1,500, Mr. Lundeen received \$28,750, Mr. Hopper received \$6,250, Mr. Pickering received \$5,750, and Mr. Johnsen received \$2,500 in Board of Directors fees for fiscal 2005. In addition, in 2005, Mr. Derrickson received 10,000 options, fully vested, for being a non-employee board member and for serving on the audit committee, Mr. Hopper received 35,000 options, fully vested, for being a non-employee board member and for serving on the compensation, audit and nominating committees, Mr. Johnsen received 10,000 options, fully vested, for being a non-employee board member and for serving on the compensation committee, Mr. Pickering received 10,000 options, fully vested, for being a non-employee board member and for serving on the nominating committee, and Mr. Lundeen received 45,000 options, fully vested, for being a non-employee board member, for serving on the compensation and nominating committees, and for chairing and serving on the audit committee. All directors are reimbursed for reasonable expenses incurred by them in attending Board and Committee meetings. In March 2005, the director compensation plan was amended to increase the cash compensation payable to the chairman of the audit committee and the compensation committee to \$5,000 and \$2,500 per quarter, respectively.

Employment Arrangements

We had a two-year employment agreement with Mr. McDonald that expired on December 31, 2005. This employment agreement provided for the following compensation:

- §□□ an annual salary of \$225,000 with an increase to \$250,000 per annum if the Company's net revenue per quarter equaled or exceeded ten million dollars at any time following January 1, 2004;
- §□□ the grant of options to purchase 150,000 shares of our Common Stock for each year of service under the agreement, vesting over a four year period, and all granted at the beginning of the employment agreement;
- §□□ an annual performance bonus equal to 100% of Mr. McDonald's annual salary in the event we achieved certain performance targets approved by our Board of Directors; and
- §□□ 24 months' severance pay plus bonus, option vesting acceleration and benefits and the use of his office and administrative assistance if Mr. McDonald was terminated without cause (or if he voluntarily terminated his employment following a change in control).

Mr. McDonald achieved his entire annual performance bonus in each of 2004 and 2005 in accordance with the terms of his employment agreement with us.

On March 28, 2006, we entered into a new three-year employment agreement with Mr. McDonald, to be effective as of January 1, 2006, which will expire December 31, 2008. Mr. McDonald's new employment agreement provides for the following compensation:

- §□□ an annual salary of \$250,000;
- §□□ an annual performance bonus of up to 200% of Mr. McDonald's annual salary in the event we achieve certain performance targets approved by our Board of Directors;
- §□□ death benefits of a lump-sum payment equal to two year's annual salary and bonus;
- §□□ disability benefits of two year's annual salary and maximum target bonus, paid over 24 months;
- §□□ severance benefits of a lump-sum payment equal to two year's annual salary and maximum target bonus, option and restricted stock vesting acceleration, and welfare benefits and the use of his office and administrative assistance for 24 months if Mr. McDonald is terminated without cause; and
- §□□ severance benefits as specified above if Mr. McDonald's employment is terminated for any reason at any time within the two year period following a change in control, as well as compensation for any excise taxes paid as a result of excess parachute payments arising from the change in control.

Mr. McDonald has agreed to refrain from competing with us for a period of five years following the termination of his employment.

We have a two-year employment agreement with Mr. Jeff Davis that expires on June 30, 2006. Mr. Davis's employment agreement provides for the following compensation:

- §□□ an annual salary of \$205,000;
- §□□ an annual performance bonus equal to 50% of his annual salary in the event we achieve certain performance targets approved by our Board of Directors;
- §□□ 12 months' severance pay, option vesting acceleration and other health and medical benefits if Mr. Davis was terminated without cause, and if the termination followed a change in control, he would also have received the performance bonus of 50% of his annual salary.

Mr. Davis's salary was increased to \$228,000 in 2004 as a result of the Company's net revenue per quarter exceeding ten million dollars. Mr. Davis's salary was increased to \$250,000 effective January 1, 2006 pursuant to a new employment agreement which is currently being negotiated. Mr. Davis achieved his entire annual performance bonus in each of 2004 and 2005 in accordance with the terms of his employment agreement with us.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Messrs. Hopper, Johnsen and Lundeen. None of these committee members was an officer or employee of our company or any of our subsidiaries at any time during fiscal 2005 or at any other time. None of our executive officers served on the board of directors of any company of which one of our directors was an executive officer.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of March 8, 2006 for (i) each person or entity who is known by us to own beneficially more than five percent (5%) of the outstanding shares of each such class; (ii) each executive officer listed in the Summary Compensation table below; (iii) each of our directors; and (iv) all directors and executive officers as a group.

Name and Address of Beneficial Owner(1)	Amount and Nature of Shares Beneficially Owned	Percent of Class(2)
John T. McDonald(3)	1,642,316	6.5%
Jeffrey S. Davis(4)	308,020	1.3%
Michael D. Hill(5)	36,236	*
Richard T. Kalbfleish(6)	17,486	*
David S. Lundeen(7)	428,962	1.8%
Max D. Hopper(8)	55,000	*
Kenneth R. Johnsen(9)	28,750	*
Ralph C. Derrickson(10)	23,750	*
Robert H. Drysdale(11)	1,466,013	6.1%
Morton Meyerson(12)	2,358,013	9.7%
2M Technology Ventures, L.P.(13)	2,166,500	8.9%
All executive officers and directors as a group (8 persons)	2,540,520	9.9%
TOTAL	6,364,546	24.8%

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- (1) Unless otherwise indicated, the address of each person or entity is 1120 South Capital of Texas Highway, Suite 220, Building 3, Austin, Texas 78746.
- (2) The percentage of common stock owned is based on total shares outstanding of 24,212,964 as of March 8, 2006.
- (3) Includes 1,027,795 shares of common stock issuable upon the exercise of options. Does not include options to purchase 531,250 shares of common stock that are not exercisable within 60 days of the date hereof. Mr. McDonald's total share ownership, including options that are not exercisable within 60 days of the date hereof, is 2,173,566.
- (4) Includes 136,811 shares of common stock issuable upon the exercise of options. Mr. Davis's address is 622 Emerson Road, Suite 400, Creve Coeur, Missouri 63141.
- (5) Includes 25,000 shares of common stock issuable upon the exercise of options.
- (6) Includes 6,250 shares of common stock issuable upon the exercise of options.
- (7) Includes 125,000 shares of common stock issuable upon the exercise of options.
- (8) Includes 55,000 shares of common stock issuable upon the exercise of options.
- (9) Includes 28,750 shares of common stock issuable upon the exercise of options.
- (10) Includes 23,750 shares of common stock issuable upon the exercise of options.
- (11) Robert H. Drysdale's address is 142 Hanapepe Loop, Honolulu, Hawaii 96825
- (12) Includes 2,166,500 shares beneficially owned by 2M Technology Ventures, L.P. Morton H. Meyerson's address is 3401 Armstrong Avenue, Dallas, Texas 75205.
- (13) 2M Technology Ventures, L.P.'s address is 3401 Armstrong Avenue, Dallas, Texas 75205.

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, 2005. "Not Approved" options includes all Non-1999 Plan options.

Plan Category	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
Equity-Compensation Plans Approved by Security Holders (1)	4,851,526	\$ 3.56	1,444,619
Equity-Compensation Plans Not Approved by Security Holders (2)(3)(4)	416,784	\$ 3.08	--
TOTAL	5,268,310	\$ 3.53	1,444,619

- (1) Represents shares issuable from the 8,189,063 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, but in no event will any such annual increase exceed 1,000,000 shares of Common Stock. Pursuant to our automatic share increase program, 1,000,000 additional shares were authorized for issuance under the Plan as of January 1, 2006. Also includes 500,000 shares reserved for issuance under the Perficient, Inc. Employee Stock Purchase Plan, which was approved by stockholders on November 17, 2005 Annual Meeting.
- (2) Represents options to purchase 106,383 shares of 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. These options are fully vested and exercisable for a period of 10 years from the date of grant. Upon termination of employment the options will be exercisable for 90 days.
- (3) In connection with our acquisition of Javelin Solutions, Inc. and our acquisition of Primary Webworks, Inc. d/b/a Vertecon, Inc., 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 include (i) options to purchase approximately 68,154 shares of our Common Stock exercisable for a weighted-average exercise price of \$1.43 per share issued in connection with our assumption of the Javelin plan and (ii) options to purchase approximately 55,937 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. These options are fully vested and exercisable for a period of approximately 10 years from the date of grant. Upon termination of employment the options will be exercisable for 90 days.
- (4) The amounts include options to purchase 32,136 shares of our Common Stock with an exercise price of \$16.94 per share, options to purchase 107,475 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. These options are fully vested and exercisable for a period of 10 years from the date of grant. Upon termination of employment the options will be exercisable for the remainder of their option term.

Item 13. Certain Relationships and Related Transactions.

In November 2005, John T. McDonald, our Chairman of the Board and Chief Executive Officer, exercised a warrant for 38,350 shares of Perficient Common Stock. This warrant was originally purchased by Mr. McDonald in connection with his purchase of the Series A Preferred Stock of the Company in 2001, which issuance of stock is described in the notes to the audited financial statements contained herein.

Item 14. Principal Accountant Fees and Services.

The following table discloses the approximate aggregate fees and expenses for professional services rendered by BDO Seidman, LLP for the fiscal years ending December 31, 2005, and 2004.

	Year Ended December 31,	
	2005	2004
Audit fees	\$ 1,056,000	\$ 145,000
Audit-related fees	\$ 5,000	\$ 4,000
Tax fees	\$ --	\$ --
All other fees	\$ --	\$ --

Audit fees represent fees for professional services provided in connection with the audit of our annual financial statements and of management's assessment and the operating effectiveness of internal control over financial reporting including in our Form 10-K, the quarterly reviews of financial statements included in our Form 10-Q filings, other statutory or regulatory filings, and services that are normally provided in connection with such filings.

Audit-related fees are fees for assurance and related services that are reasonably related to the performance of the audit or review of our annual or quarterly financial statements.

Although there were none in 2005 and 2004, tax fees would primarily include professional services performed with respect to review of our original and any amended tax returns and those of our consolidated subsidiaries, and for state, local and international tax consultation.

Although there were none in 2005 and 2004, all Other Fees would represent fees for other permissible work performed that does not meet the above category descriptions.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures relating to the pre-approval of all audit services, and non-audit services that are permitted by applicable laws and regulations, that are to be performed by our independent auditors. As part of those policies and procedures, the Audit Committee has pre-approved specific audit and audit-related services that may be provided by our independent auditors subject to certain maximum dollar amounts. No further approval by the Audit Committee is required in advance of services falling within the specific types of services and cost-levels included in the pre-approved services. Any proposed services not specifically pre-approved or exceeding pre-approved cost levels require specific pre-approval by the Audit Committee.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Report:

(1) Financial Statements:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm (BDO Seidman, LLP)	F - 2
Report of Independent Registered Public Accounting Firm (Ernst & Young, LLP)	F - 3
Consolidated Balance Sheets at December 31, 2004 and 2005	F - 4
Consolidated Statements of Operations for the years ended December 31, 2003, 2004 and 2005	F - 5
Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income for the years ended December 31, 2003, 2004 and 2005	F - 6
Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2004 and 2005	F - 7
Notes to Consolidated Financial Statements	F - 8

(2) Financial Statement Schedules:

Schedule II - Valuation and Qualifying Accounts and Reserves	F - 27
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(b) Exhibits:

See Index to Exhibits.

SIGNATURES

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

PERFICIENT, INC.

Date: March 30, 2006

By: /s/ John T. McDonald

John T. McDonald

Chief Executive Officer

Date: March 30, 2006

By: /s/ Michael D. Hill

Michael D. Hill

Chief Financial Officer

Principal Financial and Accounting Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints John T. McDonald and Michael D. Hill, and each of them (with full power to each of them to act alone), his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign on his or her behalf individually and in each capacity stated below any and all amendments (including post-effective amendments) to this annual report, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents and either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ John T. McDonald</u> John T. McDonald	Chief Executive Officer and Chairman of the Board (Principal Executive Officer)	March 30, 2006
<u>/s/ Ralph C. Derrickson</u> Ralph C. Derrickson	Director	March 30, 2006
<u>/s/ Max D. Hopper</u> Max D. Hopper	Director	March 30, 2006
<u>/s/ Kenneth R. Johnsen</u> Kenneth R. Johnsen	Director	March 30, 2006
<u>/s/ David S. Lundeen</u> David S. Lundeen	Director	March 30, 2006

EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of April 2, 2004, by and among Perficient, Inc., Perficient Genisys, Inc., Genisys Consulting, Inc. and certain shareholders of Genisys Consulting, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on April 16, 2004 and incorporated herein by reference
2.2	Agreement and Plan of Merger, dated as of June 18, 2004, by and among Perficient, Inc., Perficient Meritage, Inc., Meritage Technologies, Inc., and Robert Honner, as Stockholder Representative, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 23, 2004 and incorporated herein by reference
2.3	Asset Purchase Agreement, dated as of December 17, 2004, by and among Perficient, Inc., Perficient ZettaWorks, Inc. and ZettaWorks LLC, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on December 22, 2004 and incorporated herein by reference
2.4	Asset Purchase Agreement, dated as of June 10, 2005, by and among Perficient, Inc., Perficient iPath, Inc. and iPath Solutions, Ltd., previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 15, 2005 and incorporated herein by reference
2.5	Asset Purchase Agreement, dated as of September 2, 2005, by and among Perficient, Inc., Perficient Vivare, Inc., Vivare, LP and the other signatories thereto, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on September 9, 2005 and incorporated herein by reference
3.1	Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our 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
3.2	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Form 8-A filed with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934 on February 15, 2005 and incorporated herein by reference
3.3	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-8 (File No. 333-130624) filed on December 22, 2005 and incorporated herein by reference
3.4	Bylaws of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our 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
4.1	Specimen Certificate for shares of common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our 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
4.2	Warrant granted to Gilford Securities Incorporated, previously filed with the Securities and Exchange Commission as an Exhibit to our 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

Exhibit Number	Description
4.3	Form of Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on January 17, 2002 and incorporated herein by reference
4.4	Form of Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-3 (File No. 333-117216) and incorporated by reference herein
10.1	Perficient, Inc. Amended and Restated 1999 Stock Option/Stock Issuance Plan, previously filed with the Securities and Exchange Commission as an Exhibit to our quarterly report on Form 10-Q for the period ended September 30, 2005 and incorporated by reference herein
10.2	Form of Stock Option Agreement, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 and incorporated herein by reference
10.3	Perficient, Inc. Employee Stock Purchase Plan, previously filed with the Commission as Appendix A to the Registrant's Schedule 14A (File No. 001-15169) on October 13, 2005 and incorporated herein by reference
10.4 *	Form of Restricted Stock Agreement
10.5	Form of Indemnity Agreement between Perficient, Inc. and each of our directors and officers, previously filed with the Securities and Exchange Commission as an Exhibit to our 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
10.6	Employment Agreement between Perficient, Inc. and John T. McDonald dated January 1, 2004, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2003 and incorporated herein by reference
10.7 *	Employment Agreement between Perficient, Inc. and John T. McDonald dated March 28, 2006, and effective as of January 1, 2006
10.8	Employment Agreement between Perficient, Inc. and Jeffrey Davis dated June 20, 2004, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 and incorporated herein by reference
10.9	Amended and Restated Loan and Security Agreement by and among Silicon Valley Bank, KeyBank National Association, Perficient, Inc., Perficient Canada Corp., Perficient Genisys, Inc., Perficient Meritage, Inc. and Perficient Zettaworks, Inc. dated effective as of June 3, 2005, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 15, 2005 and incorporated herein by reference
10.10*	Lease dated April 7, 2003 by and between CarrAmerica Realty, L.P. and Perficient, Inc.
10.11*	Amendment dated May 31, 2005 to existing lease by and between CarrAmerica Realty, L.P. and Perficient, Inc.
10.12*	Amendment dated March 22, 2006 to existing lease by and between CarrAmerica Realty, L.P. and Perficient, Inc.
10.13*	Lease by and between Cornerstone Opportunity Ventures, LLC and Perficient, Inc.
10.14	First Amended and Restated Investor Rights Agreements dated as of June 26, 2002 by and between Perficient, Inc. and the Investors listed on Exhibits A and B thereto, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on July 18, 2002 and incorporated by reference herein

Exhibit Number	Description
10.15	Securities Purchase Agreement, dated as of June 16, 2004, by and among Perficient, Inc., Tate Capital Partners Fund, LLC, Pandora Select Partners, LP, and Sigma Opportunity Fund, LLC, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 23, 2004 and incorporated by reference herein
14.1	Corporate Code of Business Conduct and Ethics, previously filed with the Securities and Exchange Commission on Form 10-KSB/A for the year ended December 31, 2003 and incorporated by reference herein
14.2	Financial Code of Ethics, previously filed with the Securities and Exchange Commission on Form 10-KSB/A for the year ended December 31, 2003 and incorporated by reference herein
21.1*	Subsidiaries
23.1*	Consent of BDO Seidman, LLP
23.2*	Consent of Ernst and Young LLP
24.1	Power of Attorney (included on the signature page hereto)
31.1*	Certification by the Chief Executive Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer and Chief Financial Officer of Perficient, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Identifies an Exhibit that consists of or includes a management contract or compensatory plan or arrangement.

* Filed herewith.

PERFICIENT, INC.

INDEX TO FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Perficient, Inc. as of December 31, 2005 and 2004 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the two years in the period ended December 31, 2005. We have also audited the schedule for the years ended December 31, 2005 and 2004 listed in the accompanying index. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perficient, Inc. at December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule for the years ended December 31, 2005 and 2004 presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Perficient, Inc.'s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 30, 2006 expressed an adverse opinion thereon.

BDO Seidman, LLP

Houston, Texas
March 30, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Perficient, Inc.

We have audited the accompanying consolidated statement of operations, changes in stockholders' equity and comprehensive income and cash flows of Perficient, Inc. for the year ended December 31, 2003. Our audit also included the 2003 financial information in the financial statement schedule listed in the Index at item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Perficient, Inc. for the year ended December 31, 2003, in conformity with U.S. general accepted accounting principles. Also, in our opinion, the 2003 financial information included in the related financial statement schedule, when taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Austin, Texas
January 9, 2004

PERFICIENT, INC.

**CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2005**

	December 31,	
	2004	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,905,460	\$ 5,096,409
Accounts receivable, net of allowance for doubtful accounts of \$654,180 in 2004 and \$343,238 in 2005	20,049,500	23,250,679
Other current assets	336,309	2,416,782
Total current assets	24,291,269	30,763,870
Property and equipment:		
Hardware	2,079,521	2,708,269
Furniture and fixtures	726,570	781,265
Leasehold improvements	125,797	149,892
Software	427,178	473,554
Accumulated depreciation and amortization	(2,553,235)	(3,152,844)
Property and equipment, net	805,831	960,136
Goodwill	32,818,431	46,263,346
Other intangible assets, net of amortization	4,521,460	5,768,479
Other assets	145,374	1,179,070
Total assets	\$ 62,582,365	\$ 84,934,901
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,927,523	\$ 3,773,614
Current portion of long-term debt	1,135,354	1,337,514
Other current liabilities	6,750,968	8,330,809
Current portion of note payable to related party	243,847	243,847
Total current liabilities	15,057,692	13,685,784
Note payable to related party, less current portion	226,279	--
Long-term debt, less current portion	2,676,027	5,338,501
Total liabilities	17,959,998	19,024,285
Commitments and contingencies (Note 10)	--	--
Stockholders' equity:		
Preferred stock, \$0.001 par value; 8,000,000 shares authorized; no shares issued and outstanding as of December 31, 2004 and 2005	--	--
Common stock, \$0.001 par value; 50,000,000 shares authorized; 20,913,532 shares issued and outstanding as of December 31, 2004 and 23,908,136 shares issued and outstanding as of December 31, 2005	20,914	23,908
Additional paid-in capital	102,637,699	119,572,658
Unearned stock compensation	(1,656,375)	(4,453,172)
Accumulated other comprehensive loss	(57,837)	(87,496)
Retained deficit	(56,322,034)	(49,145,282)
Total stockholders' equity	44,622,367	65,910,616
Total liabilities and stockholders' equity	\$ 62,582,365	\$ 84,934,901

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

PERFICIENT, INC.

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

	Year Ended December 31,		
	2003	2004	2005
Revenue:			
Services	\$ 24,534,617	\$ 43,330,757	\$ 83,739,808
Software	3,786,864	13,169,693	9,386,983
Reimbursable expenses	1,870,441	2,347,223	3,870,410
Total revenue	30,191,922	58,847,673	96,997,201
Cost of revenue (exclusive of depreciation shown separately below):			
Project personnel costs	13,411,762	26,072,516	51,140,335
Software costs	3,080,894	11,341,145	7,722,166
Reimbursable expenses	1,870,441	2,347,223	3,870,410
Other project related expenses	453,412	267,416	1,845,873
Total cost of revenue	18,816,509	40,028,300	64,578,784
Gross margin	11,375,413	18,819,373	32,418,417
Selling, general and administrative	7,993,008	11,067,792	17,917,330
Depreciation	670,436	512,076	614,803
Intangibles amortization	610,421	696,420	1,611,082
Income from operations	2,101,548	6,543,085	12,275,202
Interest income	3,286	2,564	15,296
Interest expense	(285,938)	(137,278)	(658,597)
Other income (expense)	(13,459)	32,586	42,561
Income before income taxes	1,805,437	6,440,957	11,674,462
Provision for income taxes	755,405	2,527,669	4,497,710
Net income	\$ 1,050,032	\$ 3,913,288	\$ 7,176,752
Accretion of dividends on preferred stock	(157,632)	--	--
Net income available to common stockholders	\$ 892,400	\$ 3,913,288	\$ 7,176,752
Basic net income per share available to common stockholders	\$ 0.08	\$ 0.22	\$ 0.33
Diluted net income per share available to common stockholders	\$ 0.07	\$ 0.19	\$ 0.28
Shares used in computing basic net income per share	11,364,203	17,648,575	22,005,154
Shares used in computing diluted net income per share	15,306,151	20,680,507	25,242,496

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

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
AND COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2003, 2004 AND 2005

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Warrants	Additional Paid-in Capital	Deferred Stock Compen- sation	Accumulated Other Comprehen- sive	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2003	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
Warrants exercised	--	--	1,277,145	1,278	(477,374)	3,015,966	--	--	--	2,539,870
Stock options exercised	--	--	491,804	492	--	656,473	--	--	--	656,965
Issuance of stock for Genisys Acquisition	--	--	1,687,439	1,687	--	6,780,864	--	--	--	6,782,551
Issuance of stock for Meritage Acquisition	--	--	1,168,219	1,168	--	4,198,832	--	--	--	4,200,000
Issuance of stock for ZettaWorks Acquisition	--	--	1,193,179	1,193	--	7,790,266	--	--	--	7,791,459
Issuance of stock for private placement	--	--	800,000	800	388,800	1,970,191	--	--	--	2,359,791
Tax effect of non-qualified stock option exercises	--	--	--	--	--	341,789	--	--	--	341,789
Deferred stock compensation	--	--	262,500	263	--	1,656,112	(1,656,375)	--	--	--
Amortization of unearned compensation	--	--	--	--	--	--	26,623	--	--	26,623
Foreign currency translation adjustment	--	--	--	--	--	--	--	(6,007)	--	(6,007)
Net income	--	--	--	--	--	--	--	--	3,913,288	3,913,288
Total comprehensive income	--	--	--	--	--	--	--	--	--	3,907,281
Balance at December 31, 2004	--	--	20,913,532	20,914	450,166	102,187,533	(1,656,375)	(57,837)	(56,322,034)	44,622,367
Warrants exercised	--	--	88,157	88	(86,809)	243,864	--	--	--	157,143
Stock options exercised	--	--	1,354,207	1,354	--	2,703,021	--	--	--	2,704,375
Issuance of stock for iPath Acquisition	--	--	623,803	624	--	4,515,710	--	--	--	4,516,334
Issuance of stock for Vivare Acquisition	--	--	618,500	618	--	4,347,437	--	--	--	4,348,055
Forfeiture of merger consideration	--	--	(46,403)	(46)	--	(196,080)	40,840	--	--	(155,286)
Tax effect of non-qualified stock option exercises	--	--	--	--	--	2,306,199	--	--	--	2,306,199
Deferred stock compensation	--	--	356,340	356	--	3,101,617	(3,101,973)	--	--	--
Amortization of unearned compensation	--	--	--	--	--	--	264,336	--	--	264,336
Foreign currency translation adjustment	--	--	--	--	--	--	--	(29,659)	--	(29,659)
Net income	--	--	--	--	--	--	--	--	7,176,752	7,176,752
Total comprehensive income	--	--	--	--	--	--	--	--	--	7,147,093
Balance at December 31, 2005	--	\$ --	23,908,136	\$ 23,908	\$ 363,357	\$ 119,209,301	\$ (4,453,172)	\$ (87,496)	\$ (49,145,282)	\$ 65,910,616

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

PERFICIENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

	Year Ended December 31,		
	2003	2004	2005
OPERATING ACTIVITIES			
Net income	\$ 1,050,032	\$ 3,913,288	\$ 7,176,752
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	670,436	512,076	614,803
Intangibles amortization	610,421	696,420	1,611,082
Bad debt expense, net of recoveries	444,544	33,500	(104,041)
Non-cash stock compensation	135,927	26,623	264,336
Non-cash interest expense	72,383	--	23,721
Tax benefit on stock option exercises	--	341,789	2,306,199
Loss on disposal of assets	30,954	--	--
Changes in operating assets and liabilities (net of the effect of acquisitions):			
Accounts receivable	(2,021,803)	(8,153,021)	252,158
Other assets	199,753	76,261	(1,865,635)
Accounts payable	(297,185)	5,296,844	(3,155,200)
Other liabilities	990,015	1,293,999	563,239
Net cash provided by operating activities	1,885,477	4,037,779	7,687,414
INVESTING ACTIVITIES			
Purchase of property and equipment	(191,207)	(430,169)	(691,047)
Additions to software developed for internal use	--	--	(598,508)
Purchase of businesses, net of cash acquired	--	(10,733,722)	(9,703,984)
Payments on Javelin notes	(500,000)	--	(250,000)
Proceeds from disposal of assets	1,950	--	--
Net cash used in investing activities	(689,257)	(11,163,891)	(11,243,539)
FINANCING ACTIVITIES			
Payments on capital lease obligation	(569,695)	--	--
Proceeds from revolving line of credit	166,282	4,000,000	12,000,000
Payments on revolving line of credit	--	--	(8,000,000)
Payments on long-term debt	(706,293)	(521,671)	(1,135,366)
Deferred offering costs	--	--	(941,968)
Preferred stock issuance costs	(8,665)	--	--
Payment of dividends	(45,457)	--	--
Proceeds from the exercise of stock options	133,450	656,965	2,704,375
Proceeds from the exercise of warrants	300,000	2,539,870	157,143
Proceeds from stock issuances, net	--	2,373,162	--
Net cash provided by (used in) financing activities	(730,378)	9,048,326	4,784,184
Effect of exchange rate on cash and cash equivalents	(1,449)	(6,149)	(37,110)
Change in cash and cash equivalents	464,393	1,916,065	1,190,949
Cash and cash equivalents at beginning of period	1,525,002	1,989,395	3,905,460
Cash and cash equivalents at end of period	\$ 1,989,395	\$ 3,905,460	\$ 5,096,409
Supplemental disclosures:			
Interest paid	\$ 207,326	\$ 141,456	\$ 594,227
Cash paid for income taxes	\$ 449,768	\$ 2,255,987	\$ 3,684,133
Non cash activities:			
Common stock and options issued in purchase of businesses	\$ --	\$ 18,774,010	\$ 8,864,389
Forfeiture of merger consideration	\$ --	\$ --	\$ 155,286
Reduction of goodwill as a result of utilization of net tax operating losses from acquisitions which had previously been fully reserved, forfeiture of restricted stock used for acquisition purchase consideration and changes in estimated acquisition transaction costs	\$ --	\$ 644,064	\$ 670,170
Deferred stock compensation from issuance of restricted stock	\$ --	\$ 1,656,375	\$ 3,101,973

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business and Principles of Consolidation

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

The Company was incorporated on September 17, 1997 in Texas. The Company began operations in 1997. On May 3, 1999 the Company reincorporated in Delaware. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries including Perficient Canada Corp., Core Objective, Inc., Perficient Genisys, Inc., Perficient Meritage, Inc., Perficient Zettaworks, Inc., Perficient iPath, Inc., Perficient Vivare, Inc. and Perficient International Ltd. As of December 31, 2005, ,1028052 Ontario, Inc., Perficient Vertecon, Inc. and Perficient Javelin, Inc. have been dissolved or merged into Perficient, Inc. All material intercompany accounts and transactions have been eliminated in consolidation. Certain prior year balances have been reclassified to conform to current period presentation.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

Revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, revenue is recognized and billed by multiplying the number of hours expended in the performance of the contract by the established billing rates. For fixed fee projects, revenue is generally recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. On many projects the Company is also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenue in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force (“EITF”) 01-14, *Income Statement Characterization of Reimbursements Received for “Out-of-Pocket” Expenses Incurred*. In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, revenue from software sales is recorded on a gross basis based on the Company's role as principal in the transaction. Under EITF 99-19, the Company will be considered a “principal”, if 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 sale transaction and acts as an agent, the revenue would be recorded on a net basis.

We also recognize revenue in accordance with Statement of Position (“SOP”) 97-2, *Software Revenue Recognition*, as amended by SOP 98-4 and SOP 98-9, and Securities and Exchange Commission Staff Accounting Bulletin (“SAB”) 101, *Revenue Recognition in Financial Statements* as revised by SAB 104. Revenue is recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) acceptance has occurred, and (4) collectibility is deemed probable. We determine the fair value of each element in the arrangement based on vendor-specific objective evidence (“VSOE”) of fair value. VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. We follow very specific and detailed guidelines, discussed above, in determining revenues; however, certain judgments and estimates are made and used to determine revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue recognized for any period if different conditions were to prevail. For example, in determining whether collection is probable, we assess our customers' ability and intent to pay. Our actual experience with respect to collections could differ from our initial assessment if, for instance, unforeseen declines in the overall economy occur and negatively impact our customers' financial condition.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

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

Property and Equipment

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

Intangible Assets

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, and no longer amortizes its goodwill. In accordance with SFAS No. 142, the Company performs an annual impairment test of goodwill. The Company evaluates goodwill at the enterprise level as of October 1 each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by SFAS No. 142, the impairment test is accomplished using a two-stepped approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. The Company also reviewed other factors to determine the likelihood of impairment. No impairment was indicated using data as of October 1, 2005.

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

Impairment of Long-Lived Assets

Business acquisitions typically result in goodwill, and the recorded values of goodwill may become impaired in the future. The evaluation of the potential impairment of such goodwill requires us to make estimates and assumptions that affect the Company's consolidated financial statements. Management assesses potential impairments of goodwill on an annual basis or when there is evidence that events or changes in circumstances indicate that the carrying amount may not be recovered. Management's judgments regarding the existence of impairment indicators and fair values related to goodwill are based on operational performance of the businesses, market conditions and other factors. Future events could cause management to conclude that impairment indicators exist and that goodwill is impaired. Any resulting impairment loss could have an adverse impact on the Company's results of operations. Management assessed goodwill for impairment at October 1, 2005. This analysis indicated that there was no impairment of the carrying values of goodwill.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company evaluates its long-lived tangible assets and intangible assets other than goodwill in accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment of Long-Lived Assets*, which it adopted as of January 1, 2002. Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be entirely recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. Management has determined that no impairment exists as of December 31, 2005.

Income Taxes

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

Foreign Currency Transactions

For the Company's foreign subsidiaries, the functional currency has been determined to be the local currency, and therefore, assets and liabilities are translated at year-end exchange rates, and income statement items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded in aggregate as a component of stockholders' equity. Gains and losses from foreign currency denominated transactions, including a \$15,800 gain in 2003, a \$3,100 gain in 2004 and a \$14,300 loss in 2005, are included in other income (expense). Due to the wind down 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. There were no operations in the United Kingdom subsidiary in 2004 or 2005.

Segments

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

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB 25"), which allows the use of the intrinsic value method. The Company's basis for electing accounting treatment under APB 25 is principally due to the satisfactory incorporation of the dilutive effect of these shares in the reported earnings per share calculation and the presence of pro forma supplemental disclosure of the estimated fair value methodology prescribed by SFAS No. 123 and SFAS No. 148, *Accounting for Stock-Based Compensation--Transition and Disclosure*. The fair value of options was calculated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions for the year ended December 31, 2003, 2004 and 2005, as follows, with a weighted-average life of options of 5 years used for each of the years presented:

<u>Year End December 31,</u>	<u>Risk-Free Interest Rate</u>	<u>Dividend Yield</u>	<u>Volatility Factor</u>
2003	2.98%	0%	1.515
2004	3.61%	0%	1.388
2005	3.72%	0%	1.405

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 accounting policy for recognizing compensation cost for these awards with graded (pro rata) vesting is the straight-line method.

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

	<u>Year ended December 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Net income available to common stockholders as reported	\$ 892,400	\$ 3,913,288	\$ 7,176,752
Total stock-based compensation costs included in the determination of net income available to common stockholders as reported, net of tax	135,927	26,623	162,567
The stock-based employee compensation cost that would have been included in the determination of net income available to common stockholders if the fair value based method had been applied to all awards, net of tax	(1,147,235)	(1,015,627)	(2,609,154)
Pro forma net income (loss)	<u>\$ (118,908)</u>	<u>\$ 2,924,284</u>	<u>\$ 4,730,165</u>
Income (loss) per share			
Basic - as reported	\$ 0.08	\$ 0.22	\$ 0.33
Diluted - as reported	\$ 0.07	\$ 0.19	\$ 0.28
Basic - pro forma	\$ (0.01)	\$ 0.17	\$ 0.23
Diluted - pro forma	\$ (0.01)	\$ 0.14	\$ 0.20

Fair Value of Financial Instruments

Cash equivalents, accounts receivable, accounts payable, other accrued liabilities, and debt are stated at amounts which approximate fair value due to the near term maturities of these instruments and the variable interest rates on the Company's accounts receivable line of credit.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Recently Issued Accounting Standards

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

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

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

- § A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of Statement 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of Statement 123 for all awards granted to employees prior to the effective date of Statement 123(R) that remain unvested on the effective date.
- § A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under Statement 123 for purposes of pro forma disclosures based upon either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

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

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

In May 2005, the FASB issued Statement No. 154, *Accounting Changes and Error Corrections -- a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20, *Accounting Changes* and FASB Statement No. 3 *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires restatement of prior period financial statements, unless impracticable, for changes in accounting principle. The retroactive application of a change in accounting principle should be limited to the direct effect of the change. Changes in depreciation, amortization or depletion methods should be accounted for as a change in accounting estimate. Corrections of accounting errors will be accounted for under the guidance contained in APB Opinion No. 20. The effective date of this new pronouncement is for fiscal years beginning after December 15, 2005 and prospective application is required. We do not expect the adoption of SFAS 154 to have a material impact on our consolidated financial statements.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Net Income Per Share

Computations of the net income per share are as follows:

	Year Ended December 31,		
	2003	2004	2005
Net income	\$ 1,050,032	\$ 3,913,288	\$ 7,176,752
Accretion of dividends on preferred stock	(157,632)	--	--
Net income available to common stockholders	<u>\$ 892,400</u>	<u>\$ 3,913,288</u>	<u>\$ 7,176,752</u>
Basic:			
Weighted-average shares of common stock outstanding	10,818,417	16,963,708	20,868,562
Weighted-average shares of common stock subject to contingency	545,786	684,867	1,136,592
Shares used in computing basic net income per share	<u>11,364,203</u>	<u>17,648,575</u>	<u>22,005,154</u>
Effect of dilutive securities:			
Preferred stock	2,531,436	--	--
Stock options	1,410,512	2,835,672	3,104,758
Warrants	--	196,260	149,089
Unamortized stock compensation shares, tax benefit shares and unvested restricted stock shares, net	--	--	(16,505)
Shares used in computing diluted net income per share	<u>15,306,151</u>	<u>20,680,507</u>	<u>25,242,496</u>
Basic net income per share	<u>\$ 0.08</u>	<u>\$ 0.22</u>	<u>\$ 0.33</u>
Diluted net income per share	<u>\$ 0.07</u>	<u>\$ 0.19</u>	<u>\$ 0.28</u>

4. Concentration of Credit Risk and Significant Customers

Cash and accounts receivable potentially expose the Company to concentrations of credit risk. Cash is placed with highly rated financial institutions. The Company provides credit, in the normal course of business, to its customers. The Company generally does not require collateral or up-front payments. The Company performs periodic credit evaluations of its customers and maintains allowances for potential credit losses. Customers can be denied access to services in the event of non-payment. A substantial portion of the services the Company provides are built on IBM WebSphere® platforms and a significant number of its clients are identified through joint selling opportunities conducted with IBM and through sales leads obtained from the relationship with IBM. Revenue from IBM accounted for approximately 35%, 17% and 9% of total revenue for 2003, 2004 and 2005, respectively, and accounts receivable from IBM accounted for approximately 11% and 9% of total accounts receivable as of December 31, 2004 and 2005, respectively. While the dollar amount of revenue from IBM has remained relatively constant over the past three years, the percentage of total revenue from IBM has decreased as a result of the Company's growth and corresponding customer diversification. The loss of the Company's relationship with IBM, or a significant reduction in the services the Company provides for IBM would result in significantly decreased revenues and, as with the loss of any significant customer, management may need to counteract this type of revenue decrease by reducing headcount to align with the lower demand for the Company's services. In addition, during 2005 the Company had a large telecom customer comprising approximately 7% of total revenue. Due to the Company's significant fixed operating expenses, the loss of sales to IBM or any significant customer could result in the Company's inability to generate net income or positive cash flow from operations 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 approximately \$143,000, \$268,000 and \$488,000 during 2003, 2004 and 2005, respectively, which vest over a three year period of service.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Intangible Assets with Indefinite Lives

The changes in the carrying amount of intangible assets with indefinite lives for the year ended December 31, 2005 are as follows (in thousands):

	Goodwill
Balance at December 31, 2003	\$ 11,329
Acquisitions consummated during 2004 (Note 13)	22,133
Utilization of net operating loss carryforwards	(644)
Balance at December 31, 2004	\$ 32,818
Acquisitions consummated during 2005 (Note 13)	14,115
Utilization of net operating loss carryforwards, forfeiture of restricted stock used for acquisition purchase consideration and changes in estimated acquisition transaction costs	(670)
Balance at December 31, 2005	<u>\$ 46,263</u>

Intangible Assets with Definite Lives

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

	Year ended December 31,					
	2004			2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Business combinations:						
Customer relationships	\$ 3,000	\$ (410)	\$ 2,590	\$ 4,820	\$ (1,122)	\$ 3,698
Non-competes	1,950	(213)	1,737	2,073	(621)	1,452
Customer backlog	400	(206)	194	130	(57)	73
Internally developed software				599	(54)	545
	<u>\$ 5,350</u>	<u>\$ (829)</u>	<u>\$ 4,521</u>	<u>\$ 7,622</u>	<u>\$ (1,854)</u>	<u>\$ 5,768</u>

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

Customer relationships	5 - 8 years
Non-compete agreements	3 - 5 years
Customer backlog	6 months to 1 year
Internally developed software	5 years

The net carrying amount of intangible assets acquired in business combinations mainly relate to the Genisys Consulting Inc., Meritage Technologies, Inc., ZettaWorks LLC, iPath Solutions, Ltd., and Vivare, Inc. acquisitions consummated during 2004 and 2005.

Total amortization expense for the years ended December 31, 2003, 2004, and 2005 was approximately \$610,000, \$696,000 and \$1,611,000, respectively.

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

2006	\$ 1,595,000
2007	\$ 1,443,000
2008	\$ 1,250,000
2009	\$ 869,000
2010	\$ 325,000
Thereafter	\$ 287,000

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Stockholders' Equity

Preferred Stock

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

The Company entered into a Convertible Preferred Stock Purchase Agreement, dated as of December 21, 2001, with a limited number of investors under which the Company sold 1,984,000 shares of Series A Convertible Preferred Stock ("Series A Preferred Stock") to such investors for a purchase price of \$1.00 per share. In connection with the sales of the Series A Preferred Stock, the Company also issued warrants to purchase 992,000 shares of common stock of the Company with an exercise price of \$2.00 per share. Each share of Series A Preferred Stock was initially convertible into one share of common stock of the Company based on a conversion ratio as defined in the agreement, initially set at a \$1.00 conversion price divided by the purchase price per share of Series A Preferred Stock, as adjusted from time to time based on certain anti-dilution provisions. As a result of the dilution caused by the Series B issuance discussed above, the conversion price for the Series A Preferred Stock decreased to approximately \$0.99. Additionally, the number of shares purchasable under the warrants increased to 1,001,920 for an exercise price of \$1.98 per share. Accrued dividends on the Series A Preferred Stock totaled approximately \$210,617 on November 10, 2003, the automatic conversion date. The Company paid cash dividends totaling \$45,457 to certain holders of Series A Preferred Stock who had voluntarily elected to convert their Series A Preferred Stock prior to the automatic conversion date. The accrued dividends on the Series A Preferred Stock that was not voluntarily converted prior to November 10, 2003 were forfeited under the terms of the Series A Preferred Stock designation.

Common Stock

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

Stock Option Plans

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.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

The Company recognized \$135,927, \$26,623 and \$264,336 of stock compensation expense during 2003, 2004 and 2005, respectively. The stock compensation expense in 2003 was a result of options granted prior to 2003 to employees with exercise prices below the fair market value of the underlying common stock on the date of grant. Stock compensation for 2004 and 2005 was a result of restricted stock grants during 2004 and 2005.

On December 15, 2004, the Company granted restricted stock awards under the 1999 Stock Option/Stock Issuance Plan to John T. McDonald, the Company's Chief Executive Officer, and Jeffrey S. Davis, the Company's President and Chief Operating Officer, of 175,000 and 87,500 shares of common stock, respectively. This equity grant vests over seven years, with a vesting schedule that is back-loaded but includes certain accelerated vesting provisions that provide for conversion to pro-rata or straight-line vesting over the seven year period in the event certain performance targets are met. On December 28, 2005, the Company granted restricted stock awards under the 1999 Stock Option/Stock Issuance Plan to Michael D. Hill, the Company's Chief Financial Officer, and Richard T. Kalbfleish, the Company's V.P. of Finance and Administration, of 11,236 shares of common stock each. This equity grant vests over six years, with a vesting schedule that is back-end loaded but includes certain accelerated vesting provisions that provide for conversion to pro-rata or straight-line vesting over the six year period in the event certain performance targets are met.

A summary of changes in common stock options during 2003, 2004 and 2005 is as follows:

	Shares	Range of Exercise Prices	Weighted- Average Exercise Price
Options outstanding at January 1, 2003	4,390,726	\$ 0.02 - \$26.00	\$ 2.82
Options granted	2,416,373	\$ 0.50 - \$ 2.81	\$ 1.53
Options exercised	(264,140)	\$ 0.03 - \$ 1.39	\$ 0.51
Options canceled	(816,767)	\$ 0.03 - \$26.00	\$ 2.66
Options outstanding at December 31, 2003	5,726,192	\$ 0.02 - \$26.00	\$ 2.42
Options granted	1,458,700	\$ 3.00 - \$ 6.31	\$ 4.67
Options exercised	(491,804)	\$ 0.03 - \$ 4.50	\$ 1.34
Options canceled	(253,829)	\$ 0.50 - \$13.25	\$ 3.37
Options outstanding at December 31, 2004	6,439,259	\$ 0.02 - \$26.00	\$ 2.97
Options granted	415,000	\$ 7.34 - \$ 9.19	\$ 7.81
Options exercised	(1,354,207)	\$ 0.03 - \$ 8.10	\$ 2.00
Options canceled	(231,742)	\$ 0.03 - \$16.00	\$ 5.37
Options outstanding at December 31, 2005	5,268,310	\$ 0.02 - \$16.94	\$ 3.53
Options vested, December 31, 2003	2,684,572	\$ 0.02 - \$16.94	\$ 3.46

Options vested, December 31, 2004	<u>3,226,827</u>	<u>\$ 0.02 - \$16.94</u>	<u>\$ 2.85</u>
Options vested, December 31, 2005	<u>3,305,168</u>	<u>\$ 0.02 - \$16.94</u>	<u>\$ 3.00</u>

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following is additional information related to stock options outstanding at December 31, 2005:

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	686,220	\$ 0.38	6.19		624,875	\$ 0.37
\$ 0.74 - \$ 1.15	647,596	\$ 1.11	6.45		646,552	\$ 1.11
\$ 1.21 - \$ 2.28	1,384,037	\$ 2.09	7.53		799,037	\$ 1.95
\$ 2.77 - \$ 3.75	1,072,111	\$ 3.38	6.67		687,985	\$ 3.54
\$ 4.40 - \$ 6.31	839,446	\$ 5.86	8.41		179,754	\$ 4.76
\$ 6.97 - \$ 16.94	638,900	\$ 9.66	7.43		366,965	\$ 11.27
\$ 0.02 - \$ 16.94	5,268,310	\$ 3.53	7.17		3,305,168	\$ 3.00

At December 31, 2003, 2004 and 2005, the weighted-average remaining contractual life of outstanding options was 8.31, 7.89 and 7.17 years, respectively. The weighted-average grant-date fair value per share of options granted during 2003, 2004 and 2005 at market prices was approximately \$1.53, \$4.67 and \$7.81, respectively. During 2003, 2004 and 2005 there were no option grants at below market prices. The weighted-average grant-date fair value per share of options granted during 2003 at above market prices was approximately \$1.15. During 2004 and 2005 there were no option grants at above market prices.

At December 31, 2005, no shares of common stock were reserved for future issuance upon conversion of preferred stock, 5,268,310 shares were reserved for future issuance upon exercise of outstanding options and 327,881 shares were reserved for future issuance upon exercise of outstanding warrants. At December 31, 2005, there were 613,627 shares of restricted stock outstanding under the 1999 Plan, none of which were vested, and are classified as equity.

The following table summarizes information regarding warrants outstanding and exercisable as of December 31, 2005:

Warrants Outstanding and Exercisable	
Exercise Price	Warrants
\$21.00.....	25,000
\$12.00.....	100,000
\$8.00.....	3,750
\$4.64.....	138,000
\$1.98.....	61,131
\$1.98-\$21.00.....	327,881

2005 Employee Stock Purchase Plan

In 2005, the Compensation Committee approved the 2005 Employee Stock Purchase Plan (the "ESPP"), which was approved by the stockholders at the 2005 Annual Meeting.

The ESPP is a broadly-based stock purchase plan in which any eligible employee may elect to participate by authorizing the Company to make payroll deductions in a specific amount or designated percentage to pay the exercise price of an option. In no event will an employee be granted an option under the ESPP that would permit the purchase of Common Stock with a fair market value in excess of \$25,000 in any calendar year and the Compensation Committee of the Company has set the current annual participation limit at \$12,500.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

There are four three-month offering periods in each calendar year beginning on January 1, April 1, July 1, and October 1, respectively. The exercise price of options granted under the ESPP is an amount equal to 95% of the fair market value of the Common Stock on the date of exercise (occurring on, respectively, March 31, June 30, September 30, and December 31). The ESPP is designed to comply with Section 423 of the Code and thus is eligible for the favorable tax treatment afforded by Section 423.

8. Line of Credit and Long Term Debt

On June 9, 2005, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank and KeyBank National Association to be effective as of June 3, 2005. The amended agreement increases the total size of the Company's senior bank credit facilities from \$13 million to \$28.5 million by increasing the accounts receivable line of credit from \$9 million to \$15 million and increasing the acquisition term line of credit from \$4 million to \$13.5 million. Borrowings are secured by essentially all assets of the Company.

The accounts receivable line of credit, which expires in June 2008, provides for a borrowing capacity equal to all eligible accounts receivable, including 80% of unbilled revenue, subject to certain borrowing base calculations as defined in the agreement, but in no event more than \$15 million. Borrowings under this line of credit bear interest at the bank's prime rate plus 1.25% (8.5% at December 31, 2005). As of December 31, 2005, there was \$4.0 million outstanding under the accounts receivable line of credit and approximately \$11.0 million of available borrowing capacity, excluding approximately \$450,000 million reserved for two outstanding letters of credit to secure facility leases.

The Company's \$13.5 million term acquisition line of credit provides an additional source of financing for certain qualified acquisitions. As of December 31, 2005 the balance outstanding under this acquisition line of credit was approximately \$2.7 million. Borrowings under this acquisition line of credit bear interest equal to the average four year U.S. Treasury note yield plus 3.25% -- the initial \$2.5 million draw, of which \$1.5 million remains outstanding, bears interest of 7.11% at December 31, 2005 and the subsequent \$1.5 million draw, of which \$1.2 million remains, bears interest of 6.90% at December 31, 2005 and are repayable in thirty-six equal monthly installments after the first three months which require payments of accrued interest only.

The Company is required to comply with various financial covenants under the \$28.5 million credit facility. Specifically, the Company is required to maintain a ratio of after tax earnings before interest, depreciation and amortization, and other non-cash charges, including but not limited to stock and stock option compensation including pro forma adjustments for acquisitions on trailing three months annualized, to current maturities of long-term debt and capital leases plus interest of at least 1.50 to 1.00, a ratio of cash plus eligible accounts receivable including 80% of unbilled revenue less principal amount of all outstanding advances on accounts receivable line of credit to advances under the term acquisition line of credit of at least 0.75 to 1.00, and a maximum ratio of all outstanding advances under the entire credit facility to earnings before taxes, interest, depreciation, amortization and other non-cash charges, including but not limited to, stock and stock option compensation including pro forma adjustments for acquisitions on a trailing twelve month basis of no more than 2.50 to 1.00. As of December 31, 2005, the Company was in compliance with all covenants under this facility. This credit facility is secured by essentially all assets of the Company.

Notes payable to related party at December 31, 2004 and 2005 consisted of non interest-bearing notes issued to the shareholders of Javelin Solutions, Inc. ("Javelin") in April 2002 in connection with the Company's acquisition of Javelin. The notes provide for payments totaling \$1,500,000, of which \$250,000 remained outstanding on December 31, 2005. The Company made payments totaling \$62,500 in January 2004, \$312,500 in April 2004, and \$250,000 in April 2005. The Company expects to make the final payment of \$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 term debt repayments as of December 31, 2005 are as follows and excludes the \$4.0 million outstanding under the Company's accounts receivable line of credit as of December 31, 2005 which matures in June 2008:

	(in thousands)
2006	\$ 1,581
2007	1,202
2008	137
Present value of debt commitments	2,920
Less current portion	1,581
Long term portion	<u>\$ 1,339</u>

9. Income Taxes

As of December 31, 2005, the Company had U.S. Federal tax net operating loss carry forwards of approximately \$7.0 million that will begin to expire in 2020 if not utilized.

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

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

	Year Ended December 31,		
	2003	2004	2005
Current:			
Federal	\$ 386,147	\$ 1,411,771	\$ 1,147,987
Foreign	173,730	254,952	223,520
State	94,343	235,552	240,706
Total current	654,220	1,902,275	1,612,213
Tax benefit on acquired net operating loss carryforward	101,185	312,357	352,259
Tax benefit from stock options	--	341,789	2,306,199
Deferred:			
Federal	--	(26,421)	201,024
Foreign	--	--	--
State	--	(2,331)	26,015
Total deferred	--	(28,752)	227,039
	<u>\$ 755,405</u>	<u>\$ 2,527,669</u>	<u>\$ 4,497,710</u>

The components of pretax income for the years ended December 31, 2003, 2004 and 2005 are as follows:

	Year Ended December 31,		
	2003	2004	2005
Domestic	\$ 1,517,251	\$ 5,803,578	\$ 11,266,939
Canada	186,491	602,111	409,212
United Kingdom	101,695	35,268	(1,689)
Total	<u>\$ 1,805,437</u>	<u>\$ 6,440,957</u>	<u>\$ 11,674,462</u>

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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, 2004 and 2005 are as follows:

	December 31,	
	2004	2005
Deferred tax assets:		
Current deferred tax assets:		
Accrued liabilities	\$ 146,538	\$ 140,474
Net operating losses	326,277	245,844
Deferred revenue	2,775	--
Bad debt reserve	221,459	109,931
	697,049	496,249
Valuation allowance	(555,733)	(360,847)
Net current deferred tax assets	<u>\$ 141,316</u>	<u>\$ 135,402</u>
Non-current deferred tax assets:		
Net operating losses	\$ 2,987,423	\$ 2,577,336
Fixed assets	112,376	49,269
Deferred compensation	--	101,505
	3,099,799	2,728,110
Valuation allowance	(2,471,364)	(1,983,740)
Net non-current deferred tax assets	<u>\$ 628,435</u>	<u>\$ 744,370</u>
Deferred tax liabilities:		
Current deferred tax liabilities:		
Deferred income	<u>\$ 208,336</u>	<u>\$ 93,661</u>
Non-current deferred tax liabilities:		
Deferred income	\$ 180,494	\$ 93,662
Foreign withholding tax on undistributed earnings	--	44,836
Intangibles	414,140	461,657
Total non-current deferred tax liabilities	<u>\$ 594,634</u>	<u>\$ 600,155</u>
Net current deferred tax asset (liability)	<u>\$ (67,020)</u>	<u>\$ 41,741</u>
Net non-current deferred tax asset	<u>\$ 33,801</u>	<u>\$ 144,215</u>

The Company has established a valuation allowance to offset a portion of the Company's deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's earnings history and limitations on the utilization of acquired net operating losses. The valuation allowance decreased by approximately \$330,000 during 2003, increased by approximately \$1,970,000 during 2004 and decreased by approximately \$683,000 during 2005. The 2004 increase is primarily due to acquisitions made in 2004 offset by \$644,064 benefit of acquired net operating loss carryforwards. The 2005 decrease is primarily due to the benefiting of acquired net operating loss carryforwards. As of December 31, 2005, all of the valuation allowance relates to acquired entities, and as such, if realized, will reduce goodwill or other non-current assets prior to resulting in an income tax benefit.

During 2005, the Company determined that its undistributed earnings of foreign subsidiaries were no longer permanently reinvested. All of the undistributed earnings were deemed to have been repatriated during 2005 under U.S. tax law, and current federal and state taxes on the deemed repatriated amounts (less applicable foreign tax credits) are included in the respective current provisions. Upon actual repatriation of these earnings, in the form of dividends or otherwise, the Company will be subject to withholding taxes payable to the various foreign countries. A deferred tax liability has been recorded to reflect the foreign withholding tax. The foreign entities have minimal temporary items and thus no deferred taxes have been provided thereon.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

	Year Ended December 31,		
	2003	2004	2005
Tax at statutory rate of 34%	\$ 613,849	\$ 2,189,926	\$ 3,969,317
State taxes, net of federal benefit	125,494	180,220	503,568
Intangibles amortization	207,542	44,961	--
Effect of foreign operations	75,739	38,243	9,249
Change in valuation allowance	(330,332)	--	--
Other	63,113	74,319	15,576
	<u>\$ 755,405</u>	<u>\$ 2,527,669</u>	<u>\$ 4,497,710</u>

10. Commitments and Contingencies

The Company leases its office facilities and certain equipment under various operating lease agreements, as amended. 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:

<u>December 31,</u>	<u>Operating Leases</u>
2006	\$ 1,203,238
2007	956,616
2008	705,081
2009	619,522
2010	363,935
Thereafter	73,836
Total minimum lease payments	<u>\$ 3,922,228</u>

Rent expense for the years ended December 31, 2003, 2004 and 2005 was approximately \$1,322,000, \$1,383,000 and \$1,530,000, respectively.

In connection with certain of its acquisitions, the Company was required to establish various letters of credit totaling \$450,000 with Silicon Valley Bank to serve as collateral for certain office space and equipment leases. These letters of credit with Silicon Valley Bank reduce the borrowings available under the Company's line of credit with Silicon Valley Bank. One letter of credit of \$200,000 will remain in effect through October 2009, and the other letter of credit of \$250,000 will remain in effect through June 2007.

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

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

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

After including the new and amended leases subsequent to December 31, 2005, future minimum commitments under these lease agreements are as follows:

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Operating Leases
2006	\$ 1,063,671
2007	1,131,016
2008	960,204
2009	869,645
2010	622,990
Thereafter	379,089
Total minimum lease payments	<u>\$ 5,026,615</u>

11. Segments of Business and Geographic Area Information

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

	Year ended December 31,		
	2003	2004	2005
Revenue:			
United States	\$ 29,169,721	\$ 57,735,199	\$ 95,721,425
Canada	905,905	1,112,474	1,275,776
United Kingdom	116,296	--	--
Total revenue	<u>\$ 30,191,922</u>	<u>\$ 58,847,673</u>	<u>\$ 96,997,201</u>
Net income:			
United States	\$ 863,929	\$ 3,511,335	\$ 6,769,229
Canada	3,630	366,685	409,212
United Kingdom	182,473	35,268	(1,689)
Total net income	<u>\$ 1,050,032</u>	<u>\$ 3,913,288</u>	<u>\$ 7,176,752</u>

	As of December 31,	
	2004	2005
Identifiable assets:		
United States	\$ 62,243,063	\$ 84,600,070
Canada	300,662	334,831
United Kingdom	38,640	--
Total identifiable assets	<u>\$ 62,582,365</u>	<u>\$ 84,934,901</u>

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Balance Sheet Components

	December 31,	
	2004	2005
Accounts receivable:		
Accounts receivable	\$ 12,426,107	\$ 17,013,131
Unbilled revenue	8,277,573	6,580,786
Allowance for doubtful accounts	(654,180)	(343,238)
Total	<u>\$ 20,049,500</u>	<u>\$ 23,250,679</u>
Other current assets:		
Income tax receivable	\$ --	\$ 1,367,246
Other current assets	336,309	1,049,536
Total	<u>\$ 336,309</u>	<u>\$ 2,416,782</u>
Other current liabilities:		
Accrued bonuses	\$ 2,094,987	\$ 3,524,847
Accrued subcontractor fees	510,018	1,841,955
Other accrued expenses	1,702,853	1,202,188
Deferred revenue	624,349	1,084,129
Other payroll liabilities	714,049	502,983
Sales and use taxes	221,249	149,442
Accrued income taxes	170,354	25,265
Accrued vacation	395,127	--
Accrued acquisition costs related to ZettaWorks	317,982	--
Total	<u>\$ 6,750,968</u>	<u>\$ 8,330,809</u>

13. Business Combinations

Acquisition of Genisys Consulting, Inc.

On April 2, 2004, the Company consummated the acquisition of Genisys Consulting, Inc. ("Genisys"), a privately held information technology consulting company, for total purchase consideration of approximately \$8.8 million representing a net purchase price of approximately \$9.1 net of liabilities acquired. This total purchase consideration consists of approximately \$1.5 million in cash, transaction costs of approximately \$0.5 million, approximately 1.7 million shares of Perficient's common stock valued at \$3.77 per share (approximately \$6.4 million worth of Company's common stock) and stock options valued at approximately \$0.4 million. The total purchase consideration of \$8.8 million has been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such allocation resulted in goodwill of approximately \$7.4 million. Goodwill is assigned at the enterprise level and is not expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on an independent appraisal and management's estimate. The results of the Genisys operations have been included in the Company's consolidated financial statements since April 2, 2004.

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

Intangibles:

Customer relationships	\$ 1.1
Non-compete agreements	0.4
Customer backlog	0.2
Goodwill	7.4
Tangible assets and liabilities acquired:	
Accounts receivable	1.2
Other current assets	0.1

Property and equipment	0.1
Accounts payable and accrued expenses	(0.4)
Deferred income tax liability	(1.0)
Income tax payable	(0.3)
Net assets acquired	<u>\$ 8.8</u>

The Company believes that the intangible assets acquired have useful lives of nine months to eight years. In the second quarter of 2005, a former Genisys stockholder forfeited 41,190 shares of restricted stock that were issued in connection with the acquisition resulting in a reduction of Goodwill and Stockholders' Equity of approximately \$0.2 million.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Acquisition of Meritage Technologies, Inc.

On June 18, 2004, the Company consummated the acquisition of Meritage Technologies, Inc. ("Meritage"), a privately held information technology consulting company for total purchase consideration of approximately \$10.4 million, representing a net purchase price of approximately \$9.2 million net of tangible net assets acquired. This total purchase consideration consists of approximately \$2.9 million in cash, \$2.4 of liabilities repaid on behalf of Meritage Technologies, Inc., transaction costs of approximately \$0.9 million, and approximately 1.2 million shares of the Company's common stock valued at approximately \$3.595 per share (approximately \$4.2 million worth of Company's common stock). The total purchase price consideration of \$10.4 million, including transaction costs of \$0.9 million, has been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such allocation resulted in goodwill of approximately \$6.3 million. Goodwill is assigned at the enterprise level and is not expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate with assistance from an independent appraisal firm. The results of the Meritage operations have been included in the Company's consolidated financial statements since June 18, 2004.

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

Intangibles:

Customer relationships	\$ 0.3
Non-compete agreements	1.5
Deferred tax asset, net of valuation allowance	0.9
Goodwill	6.3
Tangible assets and liabilities acquired:	
Accounts receivable	2.2
Property and equipment	0.1
Accounts payable and accrued expenses	(0.9)
Net assets acquired	\$ 10.4

The Company believes that the intangible assets acquired have useful lives of five years. The Company has accrued exit costs of approximately \$0.2 million, which relate to lease obligations for excess office space that the Company has vacated. The estimated costs of vacating these leased facilities, including estimated costs to sub-lease, and sub-lease income were based on market information and trend analysis as estimated by the Company. It is reasonably possible that actual results could differ from these estimates in the near term. The Company has accrued severance of \$0.2 million, which relate to severance and related payroll taxes for certain employees of Meritage impacted by the approved plan of termination. The Company acquired deferred tax assets of approximately \$3.1 million. These assets primarily relate to net losses incurred by Meritage prior to the acquisition. The Company has placed a \$2.2 million valuation allowance on these assets based on uncertainties regarding the realization of deferred tax assets based on the Company's earnings history and limitations on the utilization of acquired net operating losses.

Acquisition of ZettaWorks LLC

On December 20, 2004, the Company consummated the acquisition of ZettaWorks LLC ("ZettaWorks"), a privately held technology consulting company for total purchase consideration of approximately, \$11.4 million, representing a net purchase price of approximately \$9.6 million net of tangible net assets acquired. This total purchase consideration consists of approximately \$2.9 million in cash, transaction costs of approximately \$0.7 million, and approximately 1.2 million shares of the Company's common stock valued at approximately \$6.537 per share (approximately \$7.8 million worth of Company's common stock). The total purchase price consideration of \$11.4 million, including transaction costs of \$0.7 million, have been allocated to the assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such allocation resulted in goodwill of approximately \$8.2 million. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate with assistance from an independent appraisal firm. The results of the ZettaWorks operations have been included in the Company's consolidated financial statements since December 20, 2004.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

Intangibles:

Customer relationships	\$ 1.1
Customer backlog	0.2
Non-compete agreements	0.1

Goodwill	8.2
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Tangible assets and liabilities acquired:

Accounts receivable	2.9
Property and equipment	0.1
Accounts payable and accrued expenses	(1.2)

Net assets acquired	<u>\$ 11.4</u>
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The Company believes that the intangible assets acquired have useful lives of one to five years.

Acquisition of iPath Solutions, Ltd.

On June 10, 2005, the Company consummated the acquisition of iPath Solutions, Ltd. ("iPath"), a privately held technology consulting company for total purchase consideration of approximately \$9.9 million, representing a net purchase price of approximately \$8.2 million net of tangible assets and liabilities acquired. This total purchase consideration consists of \$3.9 million in cash, \$0.9 million of liabilities repaid on behalf of iPath, transaction costs of approximately \$0.6 million, and 623,803 shares of the Company's common stock valued at approximately \$7.24 per share (approximately \$4.5 million worth of Company's common stock). The total purchase price consideration of \$9.9 million, including transaction costs of \$0.6 million, have been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such allocation resulted in goodwill of approximately \$7.3 million. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate and an independent appraisal. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of the iPath operations have been included in the Company's consolidated financial statements since June 10, 2005.

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

Intangibles:

Customer relationships	\$ 0.7
Customer backlog	0.2
Non-compete agreements	0.1

Goodwill	7.3
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Tangible assets and liabilities acquired:

Accounts receivable	1.6
Property and equipment	0.1
Accrued expenses	(0.1)

Net assets acquired	<u>\$ 9.9</u>
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The Company believes that the intangible assets acquired have useful lives of six months to five years.

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Acquisition of Vivare, Inc.

On September 2, 2005, the Company consummated the acquisition of Vivare, LP ("Vivare"), a privately held technology consulting company for total purchase consideration of approximately \$9.8 million, representing a net purchase price of approximately \$8.0 million net of tangible net assets acquired. This total purchase consideration consists of \$4.95 million in cash, transaction costs of approximately \$0.5 million, and 618,500 shares of the Company's common stock valued at approximately \$7.03 per share (approximately \$4.35 million worth of Company's common stock). The total purchase price consideration of \$9.8 million, including transaction costs of \$0.5 million, have been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such allocation resulted in goodwill of approximately \$6.8 million. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate and an independent appraisal. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of Vivare operations have been included in the Company's consolidated financial statements since September 2, 2005.

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

Intangibles:

Customer relationships	\$ 1.0
Customer backlog	0.1
Non-compete agreements	0.1
Goodwill	6.8
Tangible assets acquired:	
Accounts receivable	1.7
Property and equipment	0.1
Net assets acquired	\$ 9.8

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

Pro-forma Results of Operations

The following presents the unaudited pro-forma combined results of operations of the Company with Genisys Consulting, Inc., Meritage Technologies, Inc, ZettaWorks LLC, iPath Solutions, Ltd. and Vivare, Inc. for the years ended December 31, 2004 and 2005 after giving effect to certain pro forma adjustments related to the amortization of acquired intangible assets. These unaudited pro-forma results are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2003, 2004 and 2005 or of future results of operations of the consolidated entities:

	December 31,	
	2004	2005
Revenues	\$ 105,448,105	\$ 107,884,342
Net income	\$ 3,000,808	\$ 7,690,201
Basic income per share	\$ 0.14	\$ 0.34
Diluted income per share	\$ 0.12	\$ 0.30

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Quarterly Financial Results (Unaudited)

The following tables set forth certain unaudited supplemental quarterly financial information for the years ended December 31, 2005 and 2004. The quarterly operating results are not necessarily indicative of future results of operations. As described in Note 13, the Company has completed a number of business combinations at different points of these most recent eight quarters.

	Three Months Ended,			
	March 31,	June 30,	September	December 31,
	2005	2005	30,	2005
	(Unaudited)			
Revenue:				
Services	\$ 17,657,101	\$ 19,233,997	\$ 23,157,484	\$ 23,691,226
Software	1,406,856	1,393,302	1,917,663	4,669,162
Reimbursable expenses	660,193	1,033,485	1,047,576	1,129,156
Total revenue	<u>\$ 19,724,150</u>	<u>\$ 21,660,784</u>	<u>\$ 26,122,723</u>	<u>\$ 29,489,544</u>
Gross margin	\$ 6,720,248	\$ 7,283,114	\$ 9,298,452	9,116,603
Income from operations	\$ 2,531,853	\$ 2,755,828	\$ 3,555,110	\$ 3,432,411
Income before income taxes	\$ 2,419,849	\$ 2,650,112	\$ 3,359,257	\$ 3,245,244
Net income	\$ 1,488,303	\$ 1,626,811	\$ 2,065,865	\$ 1,995,773
Basic net income per share	\$ 0.07	\$ 0.08	\$ 0.09	\$ 0.09
Diluted net income per share	\$ 0.06	\$ 0.07	\$ 0.08	\$ 0.08

	Three Months Ended,			
	March 31,	June 30,	September	December 31,
	2004	2004	30,	2004
	(Unaudited)			
Revenue:				
Services	\$ 6,663,786	\$ 9,653,450	\$ 13,454,616	\$ 13,558,905
Software	1,330,476	1,071,766	3,391,358	7,376,093
Reimbursable expenses	378,165	602,928	677,158	688,972
Total revenue	<u>\$ 8,372,427</u>	<u>\$ 11,328,144</u>	<u>\$ 17,523,132</u>	<u>\$ 21,623,970</u>
Gross margin	\$ 3,035,493	\$ 3,973,255	\$ 5,676,887	\$ 6,133,738
Income from operations	\$ 1,031,699	\$ 1,345,439	\$ 1,912,729	\$ 2,253,218
Income before income taxes	\$ 1,019,518	\$ 1,331,023	\$ 1,881,427	\$ 2,208,989
Net income	\$ 620,518	\$ 810,023	\$ 1,146,089	\$ 1,336,658
Basic net income per share	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.07
Diluted net income per share	\$ 0.04	\$ 0.04	\$ 0.05	\$ 0.06

PERFICIENT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Years Ended December 31, 2005, 2004 and 2003

<u>Allowance for Doubtful Accounts</u>	<u>Balance at Beginning of Year</u>	<u>Charge to Expense</u>	<u>Recoveries</u>	<u>Write-Offs</u>	<u>Balance at End of Year</u>
	(In thousands)				
December 31, 2003	\$ 661	\$ 445	\$ --	\$ (483)	\$ 623
December 31, 2004	\$ 623	\$ 33	\$ --	\$ (2)	\$ 654
December 31, 2005	\$ 654	\$ 32	\$ (136)	\$ (207)	\$ 343

<u>Valuation Allowance on Deferred Tax Assets</u>	<u>Balance at Beginning of Year</u>	<u>Benefit Realized</u>	<u>Acquisitions Purchase Accounting</u>	<u>Write-Offs</u>	<u>Balance at End of Year</u>
	(In thousands)				
December 31, 2003	\$ 1,387	\$ (330)	\$ --	\$ --	\$ 1,057
December 31, 2004	\$ 1,057	\$ --	\$ 1,970	\$ --	\$ 3,027
December 31, 2005	\$ 3,027	\$ (446)	\$ --	\$ (236)	\$ 2,345

PERFICIENT, INC.
AMENDED AND RESTATED 1999 STOCK OPTION/STOCK ISSUANCE PLAN
RESTRICTED STOCK AWARD AGREEMENT

To: [NAME]

Date of Grant: [DATE]

Number of Shares:[SHARES]

PERFICIENT, INC., a Delaware corporation, (the “*Corporation*”), is pleased to grant you (the “*Award*”) the aggregate number of Restricted Shares of the Corporation's authorized Common Stock, par value \$0.001 per share, listed above, subject to the terms and conditions set forth in this Restricted Stock Award Agreement (this “*Agreement*”). This Award is granted pursuant to the Perficient, Inc. Amended and Restated 1999 Stock Option/Stock Issuance Plan, which was adopted effective May 3, 1999, a copy of which has been furnished to you and shall be deemed a part of this Agreement as if fully set forth herein. If any provision of this Agreement conflicts with the expressly applicable terms of the Plan, the provisions of the Plan shall control and, if necessary, the applicable provisions of the Agreement shall be deemed to be amended to comply with the terms of the Plan. The Date of Grant of the Award and the number of Restricted Shares subject to this Award are stated above. Terms capitalized but not defined herein shall have the meaning set forth in the Plan.

This Agreement sets forth the terms of the agreement between you and the Corporation with respect to the Restricted Shares. By accepting this Agreement, you agree to be bound by all of the terms hereof.

1. Definitions. As used in this Agreement, the following terms have the meanings yet forth below:

(a) “*Agreement*” means this Restricted Stock Award Agreement.

(b) “*Award*” has the meaning set forth in the first paragraph of this Agreement.

(c) “*Board of Directors*” means the board of directors of the Corporation.

(d) “*Business Day*” means any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Texas are authorized or obligated by law or executive order to close.

(e) “*Committee*” means the Compensation Committee of the Board of Directors.

(f) “*Common Stock*” means the authorized common stock, par value \$.001 per share, as described in the Corporation's Certificate of Incorporation.

(g) “*Corporate Transaction*” means either of the following stockholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

(h) “**Corporation**” means Perficient, Inc., a Delaware corporation.

(i) “**Date of Grant**” means the date designated as such in the first paragraph of this Agreement.

(j) “**Employee**” means an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

(k) “**Exchange Act**” means the Securities Exchange Act of 1934.

(l) “**Fair Market Value**” per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as the price is reported by the National Association of Securities Dealers on the Nasdaq National Market. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists;

(ii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Board to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists; or

(iii) If shares of Common Stock are not traded on the Nasdaq National Market as provided in subparagraph (i) or listed on any Stock Exchange as provided in subparagraph (ii) as of the date of determining Fair Market Value, then the Fair Market Value shall be determined in good faith by the Plan Administrator which determination shall be conclusive for all purposes.

(m) “**Involuntary Termination**” means the termination of your Service which occurs by reason of:

(i) Your involuntary dismissal or discharge by the Corporation for reasons other than Misconduct,
or

(ii) Your voluntary resignation following (A) a change in your position with the Corporation (or the Parent or the Subsidiary employing you) which materially reduces your duties and responsibilities or the level of management to which you report, (B) a reduction in your level of compensation (including base salary, fringe benefits and target bonus under any corporate performance-based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of your place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected without your consent.

(n) “**Misconduct**” means the commission of any act of fraud, embezzlement or dishonesty by you, any unauthorized use or disclosure by you of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any intentional wrongdoing by you, whether by omission or commission, which adversely affects the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. This shall not limit the grounds for the dismissal or discharge of any person in the Service of the Corporation (or any Parent or Subsidiary).

(o) “**Nasdaq**” means the National Association of Securities Dealers, Inc. Automated Quotations, Inc.

(p) “**Stock**” means Common Stock, or any other securities that are substituted for Stock as provided in Paragraph 7.

(q) “**Parent**” means any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(r) “**Restricted Shares**” means the shares of Stock subject to the restrictions specified in Paragraph 4 of this Agreement.

(s) “**Service**” means your performance of services for the Corporation (or any Parent or Subsidiary) in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor. With respect to the Restricted Shares, the Committee may, in its sole discretion, determine that if you are on leave of absence for any reason you will be considered to still be in Service to the Corporation.

(t) “**Subsidiary**” means any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2. Escrow of Restricted Shares. The Corporation shall issue in your name a certificate or certificates representing the Restricted Shares and retain that certificate or those certificates until the restrictions on such Restricted Shares expire as described in Paragraph 5 of this Agreement or the Restricted Shares are forfeited as contemplated in Paragraph 4 of this Agreement. You shall execute one or more stock powers in blank for those certificates and deliver those stock powers to the Corporation. You hereby agree that the Corporation shall hold the certificate or certificates representing the Restricted Shares and the related stock powers pursuant to the terms of this Agreement until such time as such certificate or certificates are either delivered to you or canceled pursuant to this Agreement.

3. **Ownership of Restricted Shares.** From and after the time that a certificate or certificates representing the Restricted Shares has been issued in your name, you will be entitled to all the rights of absolute ownership of the Restricted Shares, including the right to vote those shares and to receive dividends thereon if, as, and when declared by the Board of Directors, subject, however, to the terms, conditions and restrictions set forth in this Agreement.

4. **Restrictions; Forfeiture.** The Restricted Shares are restricted in that they may not be sold, transferred or otherwise alienated or hypothecated until such restrictions are removed or expire as described in Paragraph 5 of this Agreement. The Restricted Shares are also restricted in the sense that they may be forfeited to the Corporation. You hereby agree that if the Restricted Shares are forfeited as provided in Paragraph 6, the Corporation shall have the right to deliver the certificate(s) representing the Restricted Shares, along with the stock power(s) described in Paragraph 2 of this Agreement, to the Corporation's transfer agent for cancellation or, at the Corporation's election, for transfer to the Corporation to be held by the Corporation in treasury or any designee of the Corporation.

5. **Expiration of Restrictions and Risk of Forfeiture.** The restrictions on all of the Restricted Shares granted pursuant to this Agreement will expire and become transferable and nonforfeitable according to the schedule set forth in this Paragraph 5; provided, however, that such restrictions will expire on such dates only if you have been performing Service continuously since the Date of Grant through the applicable vesting date.

On or After Each of the Following Vesting Dates	Cumulative Percentage of Shares as to Which the Restricted Shares are Transferable and Nonforfeitable
[DATE]	[NUMBER]%
[DATE]	[NUMBER]%
[DATE]	[NUMBER]%
[DATE]	[NUMBER]%
[DATE]	[NUMBER]%

6. **Termination of Service.**

(a) Intentionally Left Blank

(b) **Other Termination.** If your Service is terminated for any reason, including your death or disability, then that portion, if any, of this Award for which restrictions have not lapsed as of the date of termination shall become null and void; provided, however, that the portion, if any, of this Award for which restrictions have expired as of the date of such termination shall survive such termination.

7. Adjustment Provisions.

Adjustment of Award. The terms of the Award and the number of Restricted Shares granted hereunder shall be subject to adjustment, from time to time, in accordance with the following provisions:

(a) If at any time or from time to time, the Corporation shall subdivide as a whole (by reclassification, by a Stock split, by the issuance of a distribution on Stock payable in Stock, or otherwise) the number of shares of Stock then outstanding into a greater number of shares of Stock, then the number of Restricted Shares granted under the Award shall be increased proportionately.

(b) If at any time or from time to time the Corporation shall consolidate as a whole (by reclassification, reverse Stock split, or otherwise) the number of shares of Stock then outstanding into a lesser number of shares of Stock, the number of Restricted Shares granted under the Award shall be decreased proportionately.

(c) Whenever the number of Restricted Shares subject to the Award is required to be adjusted as provided in this Paragraph 7 the Corporation shall, within thirty (30) days following such adjustment, prepare and give to you a notice setting forth, in reasonable detail, the event requiring adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the change in the number of Restricted Shares subject to the Award after giving effect to the adjustment.

(d) Adjustments under Paragraphs 7(a) and (b) shall be made by the Committee, and its determination as to what adjustments shall be made and the extent thereof shall be final, binding and conclusive. No fractional interest shall be issued on account of any such adjustments.

8. Delivery of Certificates of Stock. Promptly following the expiration of the restrictions on the Restricted Shares as contemplated in Paragraph 5 of this Agreement, and subject to Paragraph 9, the Corporation shall cause to be issued and delivered to you or your designee a certificate representing the number of Restricted Shares as to which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions, upon receipt by the Corporation of any tax withholding as may be requested. The value of such Restricted Shares shall not bear any interest owing to the passage of time.

9. Conditions to Delivery of Stock. Nothing herein shall require the Corporation to issue any shares with respect to the Award if that issuance would, in the opinion of counsel for the Corporation, constitute a violation of the Securities Act of 1933 or any similar or superseding statute or statutes, any other applicable statute or regulation, or the rules of any applicable securities exchange or securities association, as then in effect.

10. Securities Act Legend. Certificates for shares of Stock, when issued, may have the following legend, or statements of other applicable restrictions endorsed thereon and may not be immediately transferable:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS. THE SHARES MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED, TRANSFERRED, OR OTHERWISE DISPOSED OF UNTIL THE HOLDER HEREOF PROVIDES EVIDENCE SATISFACTORY TO THE ISSUER (WHICH, IN THE DISCRETION OF THE ISSUER, MAY INCLUDE AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER) THAT SUCH OFFER, SALE, PLEDGE, TRANSFER, OR OTHER DISPOSITION WILL NOT VIOLATE APPLICABLE FEDERAL OR STATE LAWS.

This legend shall not be required for shares of Stock issued pursuant to an effective registration statement under the Securities Act of 1933.

11. Legend Regarding Restrictions on Transfer. Each certificate representing shares issued to you pursuant to this Agreement shall bear the following legend with respect to the restrictions on transferability contained in this Agreement:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY IMPOSED BY THAT CERTAIN RESTRICTED STOCK AWARD AGREEMENT BETWEEN PERFICIENT, INC. (THE "CORPORATION") AND _____ DATED AS OF _____, AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE ALIENATED OR HYPOTHECATED EXCEPT AS THEREIN PROVIDED. THE CORPORATION WILL FURNISH A COPY OF SUCH AGREEMENT TO THE RECORD HOLDER OF THIS CERTIFICATE WITHOUT CHARGE ON REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS OR REGISTERED OFFICE.

12. Rights as a Stockholder. You shall have no right as a stockholder with respect to any Restricted Shares until a certificate representing those shares is issued in your name. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash or other property) or distributions or other rights for which the record date is before the date that certificate is issued, except as contemplated by Paragraph 7.

13. Furnish Information. You agree to furnish to the Corporation all information requested by the Corporation to enable it to comply with any reporting or other requirement imposed upon the Corporation by or under any applicable statute or regulation.

14. Remedies. The Corporation shall be entitled to recover from you reasonable attorneys' fees incurred in connection with the enforcement of the terms and provisions of this Agreement whether by an action to enforce specific-performance or for damages for its breach or otherwise.

15. Information Confidential. As partial consideration for the granting of the Award hereunder, you hereby agree with the Corporation that you will keep confidential all information and knowledge that you have relating to the terms and conditions of this Agreement; provided, however, that such information may be disclosed as required by law and may be given in confidence to your spouse, tax and financial advisors, or to a financial institution to the extent that such information is necessary to secure a loan. In the event any breach of this promise comes to the attention of the Corporation, it shall take into consideration that breach in determining whether to recommend the grant of any future similar award to you, as a factor militating against the advisability of granting any such future award to you.

16. Consideration. No restriction on the Restricted Shares shall lapse unless and until you have performed services for the Corporation or any of its Subsidiaries that the Corporation believes is equal to or greater in value than the par value of the Stock subject to this Award.

17. Payment of Taxes. The Corporation may from time to time, in its discretion, require you to pay to the Corporation (or a Subsidiary or Parent if you are an employee of a Subsidiary or Parent), the amount that the Corporation deems necessary to satisfy the Corporation's or its Parent's or its Subsidiary's current or future obligation to withhold federal, state or local income or other taxes that you incur as a result of the Award. With respect to any required tax withholding, you may a) direct the Corporation to withhold from the shares of Stock to be issued to you the number of shares necessary to satisfy the Corporation's obligation to withhold taxes, that determination to be based on the shares' Fair Market Value at the time as of which such determination is made; b) deliver to the Corporation sufficient shares of Stock to satisfy the Corporation's tax withholding obligations, based on the shares' Fair Market Value at the time as of which such determination is made; or c) deliver sufficient cash to the Corporation to satisfy its tax withholding obligations. If you elect to use such a stock withholding feature, you must make the election at the time and in the manner that the Corporation prescribes. The Corporation may, at its sole option, deny your request to satisfy withholding obligations through Stock instead of cash. In the event the Corporation subsequently determines that the aggregate Fair Market Value (as determined above) of any shares of Stock withheld as payment of any tax withholding obligation is insufficient to discharge that tax withholding obligation, then you shall pay to the Corporation, immediately upon the Corporation's request, the amount of that deficiency.

18. Right of the Corporation, Parent and Subsidiary to Terminate Service. Nothing contained in this Agreement shall confer upon you the right to continue in Service with the Corporation or any Parent or any Subsidiary, or interfere in any way with the rights of the Corporation or any Parent or any Subsidiary to terminate your Service at any time.

19. No Liability for Good Faith Determinations. The Corporation and the members of the Board of Directors shall not be liable for any act, omission or determination taken or made in good faith with respect to this Agreement or the Restricted Shares granted hereunder.

20. Amendment. The Option may be amended by the Board or by the Committee at any time d) if the Board or the Committee determines, in its sole discretion, that amendment is necessary or advisable in light of any addition to or change in any federal or state, tax or securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Option; or e) other than in the circumstances described in clause (a) or provided in the Plan, with your consent.

21. Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of shares of Stock or other property to you, or to your legal representative, heir, legatee or distributee, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such persons hereunder. The Corporation may require you or your legal representative, heir, legatee or distributee, as a condition precedent to such payment or issuance, to execute a release and receipt therefor in such form as it shall determine.

22. No Guarantee of Interests. The Board of Directors and the Corporation do not guarantee the Stock of the Corporation from loss or depreciation.

23. Corporation Records. Records of the Corporation or its Subsidiaries regarding your period of Service, termination of Service and the reason therefor, leaves of absence, re-employment, and other matters shall be conclusive for all purposes hereunder, unless determined by the Corporation to be incorrect.

24. Corporation Action. Any action required of the Corporation shall be by resolution of its Board of Directors or by a person authorized to act by resolution of the Board of Directors.

25. Severability. If any provision of this Agreement is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and this Agreement shall be construed and enforced as if the illegal or invalid provision had never been included herein.

26. Notices. Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail. Any such notice required or permitted to be delivered hereunder shall be deemed to be delivered on the date on which it is personally delivered, or, whether actually received or not, on the third Business Day after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address which such person has theretofore specified by written notice delivered in accordance herewith.

The Corporation and you agree that any notices shall be given to the Corporation or to you at the following address; provided that the Corporation or you may change, at any time and from time to time, by written notice to the other, the address which it or he had previously specified for receiving notices.

Corporation or Board of
Directors:

Holder:

At your current address as shown in the
Corporation's records

27. **Waiver of Notice.** Any person entitled to notice hereunder may waive such notice.

28. **Successors.** This Agreement shall be binding upon you, your legal representatives, heirs, legatees and distributees, and upon the Corporation, its successors and assigns.

29. **Headings.** The titles and headings of Paragraphs are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

30. **Governing Law.** All questions arising with respect to the provisions of this Agreement shall be determined by application of the laws of the State of Texas except to the extent Texas law is preempted by federal law. The obligation of the Corporation to sell and deliver Stock hereunder is subject to applicable laws and to the approval of any governmental authority required in connection with the authorization, issuance, sale, or delivery of such Stock.

31. **Word Usage.** Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Agreement dictates, the plural shall be read as the singular and the singular as the plural.

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IN WITNESS WHEREOF, the Corporation has caused this Agreement to be executed by its duly authorized officer as of the Date of Grant first above written.

PERFICIENT, INC.

By: _____

[NAME]

[TITLE]

ACKNOWLEDGED AND AGREED:

[NAME]

A-10

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT dated March 28, 2006, and effective as of January 1, 2006, 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 three years, commencing as of the date hereof and continuing through and including December 31, 2008, unless extended in writing by mutual agreement of the parties or earlier terminated pursuant to the terms and conditions set forth herein (the "Employment Term").

3. **DUTIES.**

(a) Employee shall serve as the 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 full business time and attention, as well as 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 base salary ("Base Salary"), payable pursuant to the Company's normal payroll procedures in place from time to time, at the rate of \$250,000 per annum, less all necessary and required federal, state and local payroll deductions. The Board of Directors of the Company (the "Board") may decide, in its sole discretion, to increase Employee's Base Salary from time to time during the term of this Agreement.

(b) Each year, Employee shall be eligible to receive a bonus of up to two-hundred percent (200%) of his Base Salary ("Target Bonus"), less all necessary and required federal, state and local payroll deductions. The criteria for determining the amount of the bonus, and the conditions that must be satisfied to entitle Employee to receive the bonus for any year during the term of this Agreement shall be determined by the Board, in its sole discretion but in a manner consistent with that used to determine Employee's bonus in prior years. Payment of any bonus to Employee shall be in accordance with bonus policies established from time to time by the Company.

6. EXPENSES. Employee shall be reimbursed for 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 participate in such insurance, disability, health and medical benefits and 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 to the extent former employees are eligible to participate in such arrangements pursuant to the terms of the arrangement, any insurance policy associated therewith and applicable law, and, further, shall 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 policies as may be established from time to time by the Company for its 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 the Company shall, within 30 days of such termination, pay to his estate, Employee's Base Salary, any unpaid bonus awards, reimbursable expenses and benefits owing to Employee through the date of Employee's death together with a lump-sum equal to two year's Base Salary and Target Bonus. Except as otherwise contemplated by this Agreement, 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 the Board's reasoned and good faith judgment that Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months. The reasoned and good faith judgment of the Board as to Disability shall be based on such competent medical evidence as shall be presented to it by Employee and/or by any physician or group of physicians or other competent medical experts employed by Employee or the Company to advise the Board. In case of such termination, Employee shall be entitled to receive his Base Salary, any unpaid bonus awards, reimbursable expenses and benefits owing to Employee through the date of termination. In addition, the Company shall pay to Employee an amount equal to two year's Base Salary and Target Bonus, payable in installments through regular payroll over the two year period commencing on the termination date. Except as otherwise contemplated by this Agreement, 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 be obligated to pay Employee, within 30 days of the date of Employee's termination or such later date as required by applicable law, in a lump-sum, his Base Salary, any unpaid bonus awards, reimbursable expenses and benefits owing to Employee through the day on which Employee is terminated, together with a severance payment to the Employee in an amount equal to two year's Base Salary and Target Bonus (the "Severance Payment"). Employee shall also be entitled to benefits pursuant to paragraph 7 hereof and the use of an office and administrative assistant for a period of two years after the date of any Without Cause Termination. No other cash payments shall be made, or benefits provided, by the Company under this Agreement in the event of a Without Cause Termination; provided that all stock option grants and/or restricted stock grants previously awarded to Employee shall immediately 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 voluntarily terminates employment with the Company for any reason, the Employee shall not be entitled to any severance, except that the Company shall be obligated to pay Employee his Base Salary, any unpaid bonus awards, reimbursable expenses and benefits owing to Employee through the day on which Employee is terminated. Except as otherwise contemplated by this Agreement, 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 in the Company Plan) of the Company has occurred, if the Company (or any successor thereto) terminates Employee's employment with the Company for any reason, or if the Employee voluntarily terminates his employment for any reason, at any time within the two year period commencing immediately after the Change in Control, Employee shall be entitled to all the benefits set forth in subparagraph 9(b) as if such termination was a Without Cause Termination.

(b) In the event that any part of any payment or benefit received (including, without limitation, granting of and/or acceleration of vesting of stock options and restricted stock) pursuant to the terms of paragraph 10(a) (the "Change of Control Payments") would be subject to the Excise Tax determined as provided below, the Company shall pay to the Employee, at the time specified in subparagraph 10(c) below, an additional amount (the "Gross-Up Payment") such that the net amount retained by the Employee, after deduction of the Excise Tax on the Change of Control Payments and any federal, state and local income tax and the Excise Tax on the Gross-Up Payment, and any interest, penalties or additions to tax payable by the Employee with respect thereto, shall be equal to the total present value (using the applicable federal rate as defined in Section 1274(d) of the Code in such calculation) of the Change of Control Payments at the time such Change of Control Payments are to be made. For purposes of determining whether any of the Change of Control Payments will be subject to the Excise Tax and the amounts of such Excise Tax; (1) the total amount of the Change of Control Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code shall be treated as subject to Excise Tax, except to the extent that, in the opinion of independent counsel selected by the Company and reasonably acceptable to the Employee ("Independent Counsel"), a Change of Control Payment (in whole or in part) does not constitute a "parachute payment" within the meaning of Section 280G(b)(2) of the Code, or such "excess parachute payments" (in whole or in part) are not subject to the Excise Tax, (2) the amount of the Change of Control Payments that shall be treated as subject to the Excise Tax shall be equal to the lesser of (A) the total amount of the Change of Control Payments or (B) the amount of "excess parachute payments" within the meaning of Section 280G(b)(1) of the Code (after applying clause (1) hereof), and (3) the value of any noncash benefits or any deferred payment or benefit shall be determined by Independent Counsel in accordance with the principles of Sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, the Employee shall be deemed to pay federal income taxes at the highest marginal rates of federal income taxation applicable to individuals in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rates of taxation applicable to individuals as are in effect in the state and locality of the Employee's residence in the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes that can be obtained from deduction of such state and local taxes, taking into account any limitations applicable to individuals subject to federal income tax at the highest marginal rates.

(c) The Gross-Up Payments provided for in subparagraph 10(b) hereof shall be made upon the earlier of (i) the payment to the Employee of any Change of Control Payment or (ii) the imposition upon the Employee or payment by the Employee of any Excise Tax.

(d) If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding or the opinion of the Independent Counsel that the Excise Tax is less than the amount taken into account under subparagraph 10(b) hereof, the Employee shall repay to the Company within thirty (30) days of the Employee's receipt of notice of such final determination or opinion the portion of the Gross-Up Payment attributable to such reduction (plus the portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income tax imposed on the Gross-Up Payment being repaid by the Employee if such repayment results in a reduction in Excise Tax or a federal, state and local income tax deduction) plus any interest received by the Employee on the amount of such repayment. If it is established pursuant to a final determination of a court or an Internal Revenue Service proceeding or the opinion of Independent Counsel that the Excise Tax exceeds the amount taken into account hereunder (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess within thirty (30) days of the Company's receipt of notice of such final determination or opinion.

(e) In the event of any change in, or further interpretation of, Sections 280G or 4999 of the Code and the regulations promulgated thereunder, the Employee shall be entitled, by written notice to the Company, to request an opinion of Independent Counsel regarding the application of such change or interpretation to any of the foregoing, and the Company shall use its best efforts to cause such opinion to be rendered as promptly as practicable. Any fees and expenses of Independent Counsel incurred in connection with this Agreement shall be borne by the Employee.

(f) In the event that any part of any payment or benefit received (including, without limitation, granting of and/or acceleration of vesting of stock options and restricted stock) pursuant to the terms of paragraph 9(b) would impose on the Employee the Excise Tax under Section 4999 of the Code, then the Employee may elect, in the sole discretion of the Employee, to receive in-lieu of the amounts payable pursuant to paragraph 9(b) (including the vesting and granting of Annual Stock Grants pursuant thereto) a lesser amount equal to \$100 less than 3.00 times the Employee's "Annualized Includable Compensation" (within the meaning of Section 280G(d)(1) of the Code) (such amount the "Cut-Back Amount") by first reducing the Severance Payment payable to the Employee, by next eliminating the additional granting of Annual Stock Grants, and by finally eliminating the accelerated vesting of Annual Stock Grants, to the limited extent necessary to reduce the payments and benefits under paragraph 9(b) to the Cut-Back Amount. Any amounts paid (including, without limitation, granting of and/or acceleration of vesting of stock options and restricted stock) as a result of an election by the Employee pursuant to this paragraph 10(f) will be in full satisfaction of the amounts otherwise payable to the Employee pursuant to paragraph 9(b) hereof.

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. The Company will provide Employee with valuable confidential information belonging to the Company or its subsidiaries or its affiliates above and beyond any confidential information previously received by Employee and will associate Employee with the goodwill of the Company or its subsidiaries or its affiliates above and beyond any prior association of Employee with that goodwill. In return, Employee promises never to disclose or misuse such confidential information and never to misuse such goodwill. To enforce Employee's promises in this regard, Employee agrees to comply with the provisions of this paragraph 11.

(b) Employee will not, during the Employment Term, 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 other business that is competitive with the business of providing information technology software consulting services. 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).

(c) Employee will not, during the Employment Term and for a period of 60 months thereafter, directly or indirectly, work in the United States 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 is competitive with the business of providing information technology software consulting services. 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).

(d) Employee will not, during the Employment Term and for a period of 60 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 was a customer of the Company or any of its subsidiaries or affiliates during Employee's employment with the Company, in either case for a business that is competitive with the business of providing information technology software consulting services.

(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 under applicable law, the provisions shall be modified to the extent required to make the provisions enforceable. 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.

12. COMPANY PROPERTY.

(a) Any patents, inventions, discoveries, applications or processes designed, devised, planned, applied, created, discovered or invented by Employee during the Employment Term, regardless of when reduced to writing or practice, 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.

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 paragraph 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; SURVIVAL OF TERMS. 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. In the event of any conflict between this Agreement and any Award Agreement, this Agreement shall control. Paragraphs 9 through 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.

[Signature page follows.]

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

PERFICIENT, INC.

By: /s/ David Lundeen

Name: David Lundeen

Title: Director, Chairman of the
Compensation Committee

By: /s/ Max D. Hopper

Name: Max D. Hopper

Title: Director, Member of the
Compensation Committee

By: /s/ Kenneth R. Johnsen

Name: Kenneth R. Johnsen

Title: Director, Member of the
Compensation Committee

/s/ John T. McDonald

John T. McDonald, Individually

SIGNATURE PAGE TO EMPLOYMENT AGREEMENT

Lease

THE SETTING

Between

PERFICIENT, INC.
(Tenant)

and

CARRAMERICA REALTY, L.P.,
t/a THE SETTING
(Landlord)

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LEASE

THIS LEASE (the "Lease") is made as of April 7, 2003, between CarrAmerica Realty, L.P., t/a The Setting (the "Landlord") and the Tenant as named in the Schedule below. The term "Project" means those buildings (collectively, the "Building") known as "The Setting" and the land (the "Land") located at 1120 South Capital of Texas Highway, Austin, Texas, and legally described in Appendix A. "Premises" means that part of the Project leased to Tenant described in the Schedule and outlined on Appendix A.

The following schedule (the "Schedule") is an integral part of this Lease. Terms defined in this Schedule shall have the same meaning throughout the Lease.

SCHEDULE

1. Tenant: Perficient, Inc.
2. Premises: Suite 220, Building III
3. Rentable Square Feet: 2,701
4. Tenant's Proportionate Share: 1.963% (based upon a total of 137,594 rentable square feet in the Building)
5. Security Deposit: \$4,201.25
6. Tenant's Real Estate Broker for this Lease: David Bremer of Austin Office Space, Inc.
7. Landlord's Real Estate Broker for this Lease: None
8. Tenant Improvements, if any: See Section 3.A. of the Lease.
9. Commencement Date: April 15, 2003
10. Termination Date/Term: Twenty-Four (24) months after the Commencement Date, provided that, if the Commencement Date is not the first day of a month, then Twenty-Four (24) months after the first day of the calendar month immediately following the Commencement Date.
11. Guarantor: None.

12. Base Rent:

<u>Period</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
April 15, 2003 - May 15, 2003	N/A	\$0.00*
May 16, 2003- June 15, 2003	N/A	\$0.00**
June 16, 2003- May 30, 2004	\$24,323.28	\$2,026.94
June 1, 2004- May 30, 2005	\$27,024.24	\$2,252.02

*No Base Rent or Operating Cost Share Rent Due

**No Base Rent Due, but Operating Cost Share Rent and other costs under this Lease are due

13. Initial estimated Operating Cost Share Rent: \$26,091.66 per year/\$2,174.31 per month.

1. **LEASE AGREEMENT.** On the terms stated in this Lease, Landlord leases the Premises to Tenant, and Tenant leases the Premises from Landlord, for the Term beginning on the Commencement Date and ending on the Termination Date unless extended or sooner terminated pursuant to this Lease.

2. **RENT.**

A. **Types of Rent.** Tenant shall pay the following Rent in the form of a check to Landlord at the following address:

CarrAmerica Realty, L.P., Austin
t/a The Setting
P.O. Box 642825
Pittsburgh, PA 15264-2825

or by wire transfer as follows:

PNC Bank
ABA Number: 043000096
Account Number: 1004339225

or in such other manner as Landlord may notify Tenant:

(1) **Base Rent** in monthly installments in advance, the first monthly installment payable concurrently with the execution of this Lease and thereafter on or before the first day of each month of the Term in the amount set forth on the Schedule.

(2) **Operating Cost Share Rent** in an amount equal to the Tenant's Proportionate Share of the Operating Costs for the applicable Fiscal Year (as defined below) of the Lease, paid monthly in advance in an estimated amount. Definitions of Operating Costs and Tenant's Proportionate Share, and the method for billing and payment of Operating Cost Share Rent are set forth in Sections 2B, 2C and 2D. The Controllable Operating Cost Share Rent (defined below) applicable to the second fiscal year of the Lease shall be the lesser of (i) Tenant's Proportionate Share of Controllable Operating Costs during the second fiscal year, or (ii) the sum of Tenant's Proportionate Share of Controllable Operating Costs for the first fiscal year, plus five percent (5%) (such sum is the "**Cap Amount**").

The Controllable Operating Cost Share Rent applicable to each fiscal year thereafter shall be the lesser of (i) Tenant's Proportionate Share of Controllable Operating Costs during the applicable fiscal year, or (ii) the sum of the Cap Amount for the immediately preceding fiscal year, plus five percent (5%).

"**Controllable Operating Cost Share Rent**" shall be an amount equal to Tenant's Proportionate Share of Controllable Operating Costs. "**Controllable Operating Costs**" means all Operating Costs other than costs related to insurance, collectively bargained union wages, electricity and other utilities (herein, "**Non-Controllable Operating Costs**"). There shall be no

cap on Non-Controllable Operating Costs.

Assume, for example, Controllable Operating Cost Share Rent for the first fiscal year of \$100.00. In the second fiscal year, Controllable Operating Cost Share Rent would be the lesser of (i) Tenant's Proportionate Share of Controllable Operating Costs for the second fiscal year, or (ii) \$105.00 (\$100.00 plus five percent [5%], which would be the Cap Amount). In the third year, Controllable Operating Cost Share Rent would be the lesser of (i) Tenant's Proportionate Share of Controllable Operating Costs for the third fiscal year, or (ii) \$110.25 (\$105.00 plus five percent [5%], which becomes the Cap Amount for the following year).

(3) Additional Rent in the amount of all costs, expenses, liabilities, and amounts which Tenant is required to pay under this Lease, excluding Base Rent and Operating Cost Share Rent, but including any interest for late payment of any item of Rent.

(4) Rent as used in this Lease means Base Rent, Operating Cost Share Rent and Additional Rent. Tenant's agreement to pay Rent is an independent covenant, with no right of setoff, deduction or counterclaim of any kind.

B. Payment of Operating Cost Share Rent.

(1) Payment of Estimated Operating Cost Share Rent. Landlord shall estimate the Operating Costs of the Project (including Taxes, as defined below) by April 1 of each Fiscal Year, or as soon as reasonably possible thereafter. Landlord may revise these estimates whenever it obtains more accurate information, such as the final real estate tax assessment or tax rate for the Project.

Within thirty (30) days after receiving the original or revised estimate from Landlord, Tenant shall pay Landlord one-twelfth (1/12th) of Tenant's Proportionate Share of the estimated Operating Costs, multiplied by the number of months that have elapsed in the applicable Fiscal Year to the date of such payment including the current month, minus payments previously made by Tenant for the months elapsed. On the first day of each month thereafter, Tenant shall pay Landlord one-twelfth (1/12th) of Tenant's Proportionate Share of this estimate, until a new estimate becomes applicable.

(2) Correction of Operating Cost Share Rent. Landlord shall deliver to Tenant a report for the previous Fiscal Year (the "Operating Cost Report") by May 15 of each year, or as soon as reasonably possible thereafter, setting forth (a) the actual Operating Costs incurred, (b) the amount of Operating Cost Share Rent due from Tenant (inclusive of any Equitable Adjustments thereto), and (c) the amount of Operating Cost Share Rent paid by Tenant. Within twenty (20) days after such delivery, Tenant shall pay to Landlord the amount due minus the amount paid. If the amount paid exceeds the amount due, Landlord shall apply the excess to Tenant's payments of Operating Cost Share Rent next coming due.

C. Definitions.

(1) Included Operating Costs. "Operating Costs" means any expenses, costs and disbursements of any kind, paid or incurred by Landlord in connection with the management (including any management fees), maintenance, operation, insurance, repair, replacement and other related activities in connection with any part of the Project and of the personal property, fixtures, machinery, equipment, systems and apparatus used in connection therewith, including the cost of providing those services required to be furnished by Landlord under this Lease. Operating Costs shall also include Taxes and the costs of any capital improvements which are intended to reduce Operating Costs or improve safety, and those made to keep the Project in compliance with governmental requirements applicable from time to time (collectively, "Included Capital Items"); provided, that the costs of any Included Capital Item shall be amortized by Landlord, together with an amount equal to interest at ten percent (10%) per annum, over the estimated useful life of such item and such amortized costs are only included in Operating Costs for that portion of the useful life of the Included Capital Item which falls within the Term.

If the Project is not fully occupied during any portion of any Fiscal Year, Landlord may adjust (an "Equitable Adjustment") actual Operating Costs to equal what would have been incurred by Landlord had the Project been fully occupied. This Equitable Adjustment shall apply only to Operating Costs which are variable and therefore increase as occupancy of the Project increases. In addition to applying an Equitable Adjustment to Operating Costs actually incurred by Landlord during a Fiscal Year, Landlord may incorporate the Equitable Adjustment in its estimates of Operating Costs.

If Landlord does not furnish any particular service whose cost would have constituted an Operating Cost to a tenant other than Tenant who has undertaken to perform such service itself, Operating Costs shall be increased by the amount which Landlord would have incurred if it had furnished the service to such tenant.

(2) Excluded Operating Costs. Operating Costs shall not include:

- (a) costs of alterations of tenant premises;
- (b) costs of capital improvements other than Included Capital Items;
- (c) interest and principal payments on mortgages or any other debt costs, or rental payments on any ground lease of the Project;
- (d) real estate brokers' leasing commissions;
- (e) legal fees, space planner fees and advertising expenses incurred with regard to leasing the Building or portions thereof;
- (f) any cost or expenditure for which Landlord is reimbursed, by insurance proceeds or otherwise, except by Operating Cost Share

Rent;

- (g) the cost of any service furnished to any office tenant of the Project which Landlord does not make available to Tenant;
- (h) depreciation (except on any Included Capital Items);
- (i) franchise or income taxes imposed upon Landlord, except to the extent imposed in lieu of all or any part of Taxes;
- (j) legal and auditing fees which are for the benefit of Landlord such as collecting delinquent rents, preparing tax returns and other financial statements, and audits other than those incurred in connection with the preparation of reports required pursuant to Section 2B above;
- (k) the wages of any employee for services not related directly to the management, maintenance, operation and repair of the Building; and
- (l) fines, penalties and interest.

(3) Taxes. "Taxes" means any and all taxes, assessments and charges of any kind, general or special, ordinary or extraordinary, levied against the Project, which Landlord shall pay or become obligated to pay in connection with the ownership, leasing, renting, management, use, occupancy, control or operation of the Project or of the personal property, fixtures, machinery, equipment, systems and apparatus used in connection therewith. Taxes shall include real estate taxes, personal property taxes, sewer rents, water rents, special or general assessments, transit taxes, ad valorem taxes, assessments by any property owners association or under any deed or other restrictive covenants and any tax levied on the rents hereunder or the interest of Landlord under this Lease (the "Rent Tax"). Taxes shall also include all fees and other costs and expenses paid by Landlord in reviewing any tax and in seeking a refund or reduction of any Taxes, whether or not the Landlord is ultimately successful.

For any year, the amount to be included in Taxes (a) from taxes or assessments payable in installments, shall be the amount of the installments (with any interest) due and payable during such year, and (b) from all other Taxes, shall at Landlord's election be the amount accrued, assessed, or otherwise imposed for such year or the amount due and payable in such year. Any refund or other adjustment to any Taxes by the taxing authority, shall apply during the year in which the adjustment is made.

Taxes shall not include any net income (except Rent Tax), capital, stock, succession, transfer, franchise, gift, estate or inheritance tax, except to the extent that such tax shall be imposed in lieu of any portion of Taxes.

(4) Lease Year. "Lease Year" means each consecutive twelve-month period beginning with the Commencement Date, except that if the Commencement Date is not the

first day of a calendar month, then the first Lease Year shall be the period from the Commencement Date through the final day of the twelve months after the first day of the following month, and each subsequent Lease Year shall be the twelve months following the prior Lease Year.

(5) Fiscal Year. "Fiscal Year" means the calendar year, except that the first Fiscal Year and the last Fiscal Year of the Term may be a partial calendar year.

(6) Lease Month. "Lease Month" means each of the twelve (12) calendar months occurring during a Lease Year, except that if the Commencement Date is not the first day of a calendar month, then the first Lease Month shall be the period from the Commencement Date through the final day of the following calendar month.

D. Computation of Base Rent and Rent Adjustments.

(1) Prorations. If this Lease begins on a day other than the first day of a month, Base Rent and Operating Cost Share Rent shall be prorated for such partial month based on the actual number of days in such month. If this Lease begins on a day other than the first day, or ends on a day other than the last day, of the Fiscal Year, Operating Cost Share Rent shall be prorated for the applicable Fiscal Year.

(2) Default Interest. Any sum due from Tenant to Landlord not paid when due, the due date being the end of any applicable grace period if such grace period is provided for in this lease, shall bear interest from the date due until paid at the lesser of (i) the maximum legal rate allowed by law or (ii) eighteen percent (18%) per annum.

(3) Rent Adjustments. The square footage of the Premises and the Building set forth in the Schedule are conclusively deemed to be the actual square footage thereof, without regard to any subsequent remeasurement of the Premises or the Building. If any Operating Cost paid in one Fiscal Year relates to more than one Fiscal Year, Landlord may proportionately allocate such Operating Cost among the related Fiscal Years.

(4) Miscellaneous. So long as Tenant is in default of any obligation under this Lease, Tenant shall not be entitled to any refund of any amount from Landlord. If this Lease is terminated for any reason prior to the annual determination of Operating Cost Share Rent, either party shall pay the full amount due to the other within fifteen (15) days after Landlord's notice to Tenant of the amount when it is determined. Landlord may commingle any payments made with respect to Operating Cost Share Rent, without payment of interest.

3. PREPARATION AND CONDITION OF PREMISES; POSSESSION AND SURRENDER OF PREMISES.

A. Condition of Premises. Except to the extent of the items listed below in this Section 3.A., Landlord is leasing the Premises to Tenant "as is", without any obligation to alter, remodel, improve, repair or decorate any part of the Premises. Landlord shall use commercially reasonable efforts to demise and paint the Premises, install new carpet in the Premises, and paint

the common area corridors and restrooms of the 2nd floor on or before the Commencement Date. Landlord will also complete the first floor lobby/common area improvements (i.e., install wood around the elevators and make other improvements consistent with the Lobby in Building 2), upon signing a lease for the first floor space.

B. Tenant's Possession. Tenant's taking possession of any portion of the Premises shall be conclusive evidence that the Premises was in good order, repair and condition. If Landlord authorizes Tenant to take possession of any part of the Premises prior to the Commencement Date for purposes of doing business, all terms of this Lease shall apply to such pre-Term possession, including Base Rent at the rate set forth for the First Lease Year in the Schedule prorated for any partial month.

C. Maintenance. Throughout the Term, Tenant shall maintain the Premises in their condition as of the Commencement Date, loss or damage caused by the elements, ordinary wear, and fire and other casualty excepted, and at the termination of this Lease, or Tenant's right to possession, Tenant shall return the Premises to Landlord in broom-clean condition. To the extent Tenant fails to perform either obligation, Landlord may, but need not, restore the Premises to such condition and Tenant shall pay the cost thereof.

4. **PROJECT SERVICES.** Landlord shall furnish services as follows:

A. Heating and Air Conditioning. During the normal business hours of 7:00 a.m. to 7:00 p.m., Monday through Friday, and 8:00 a.m. to 12:00 p.m. on Saturday, excluding New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, Christmas Day, and any other holiday taken by tenants occupying at least one-half (1/2) of the Rentable Square Feet of office space in the Building, as announced from time to time by Landlord, Landlord shall furnish heating and air conditioning to provide a comfortable temperature, in Landlord's judgment, for normal business operations, except to the extent Tenant installs equipment which adversely affects the temperature maintained by the air conditioning system. If Tenant installs such equipment, Landlord may install supplementary air conditioning units in the Premises, and Tenant shall pay to Landlord upon demand as Additional Rent the cost of installation, operation and maintenance thereof.

Landlord shall furnish heating and air conditioning after business hours if Tenant provides Landlord reasonable prior notice, and pays Landlord all then current charges for such additional heating or air conditioning.

B. Elevators. Landlord shall provide passenger elevator service during normal business hours to Tenant in common with Landlord and all other tenants. Landlord shall provide limited passenger service at other times, except in case of an emergency.

C. Electricity. Landlord shall provide sufficient electricity to operate normal office lighting and equipment. Tenant shall not install or operate in the Premises any electrically operated equipment or other machinery, other than business machines and equipment normally employed for general office use which do not require high electricity consumption for operation, without obtaining the prior written consent of Landlord. If any or all of Tenant's equipment requires electricity consumption in excess of that which is necessary to operate normal office equipment, such

consumption (including consumption for computer or telephone rooms and special HVAC equipment) shall be submetered by Landlord at Tenant's expense, and Tenant shall reimburse Landlord as Additional Rent for the cost of its submetered consumption based upon Landlord's average cost of electricity. Such Additional Rent shall be in addition to Tenant's obligations pursuant to Section 2A(2) to pay its Proportionate Share of Operating Costs.

D. Water. Landlord shall furnish hot and cold tap water for drinking and toilet purposes. Tenant shall pay Landlord for water furnished for any other purpose as Additional Rent at rates fixed by Landlord. Tenant shall not permit water to be wasted.

E. Janitorial Service. Landlord shall furnish janitorial service as generally provided to other tenants in the Building.

F. Parking. Landlord shall provide parking areas for the Project, as designated by Landlord from time to time, for the nonexclusive use by Tenant and its employees and other invitees in common with Landlord and other tenants of Project and their respective employees and other invitees. Tenant shall not use greater than one (1) parking space within the Project (including visitor parking spaces) for every three hundred (300) Rentable Square Feet contained within the Premises. Tenant shall have no right to exclusive parking with respect to any parking spaces within the Project, and Tenant shall not tow cars or otherwise enforce its parking rights against third parties. Tenant shall not allow its employees or other invitees to park within any public streets adjacent to the Project. Landlord shall not be responsible for enforcing Tenant's parking rights against third parties and Landlord shall have no liability to Tenant due to Tenant's inability to utilize parking spaces within the Project; however, Landlord shall have the right, but not the obligation, to impose reasonable rules and regulations as Landlord may deem necessary to regulate parking within the Project, including registration of license plate numbers for vehicles driven by Tenant's employees, issuance and monitoring of parking tags or permits and/or designation of exclusive parking spaces. Landlord shall not be liable for any damage or loss to any automobile (or property therein) parked in, on or about such parking areas, or for any injury sustained by any person in, on or about such areas.

G. Interruption of Services. If any of the Building equipment or machinery ceases to function properly for any cause Landlord shall use reasonable diligence to repair the same promptly. Landlord's inability to furnish, to any extent, the Project services set forth in this Section 4, or any cessation thereof resulting from any causes, including any entry for repairs pursuant to this Lease, and any renovation, redecoration or rehabilitation of any area of the Building shall not render Landlord liable for damages to either person or property or for interruption or loss to Tenant's business, nor be construed as an eviction of Tenant, nor work an abatement of any portion of Rent, nor relieve Tenant from fulfillment of any covenant or agreement hereof.

5. ALTERATIONS AND REPAIRS.

A. Landlord's Consent and Conditions. Tenant shall not make any improvements or alterations to the Premises (the "Work") without in each instance submitting plans and specifications for the Work to Landlord and obtaining Landlord's prior written consent. Tenant shall pay Landlord's standard charge for review of the plans and all other items submitted by Tenant. Landlord will be deemed to be acting reasonably in withholding its consent for any Work which (a)

impacts the base structural components or systems of the Building, (b) impacts any other tenant's premises, or (c) is visible from outside the Premises.

Tenant shall reimburse Landlord for actual costs incurred for review of the plans and all other items submitted by Tenant. Tenant shall pay for the cost of all Work. All Work shall become the property of Landlord upon its installation, except for Tenant's trade fixtures and for items which Landlord requires Tenant to remove at Tenant's cost at the termination of the Lease pursuant to Section 5E. Tenant shall designate those items which it considers to be its trade fixtures in any request for Landlord's approval of alterations. Any alterations not designated as such in Tenant's request shall be deemed not to be trade fixtures.

The following requirements shall apply to all Work:

(1) Prior to commencement, Tenant shall furnish to Landlord building permits, certificates of insurance satisfactory to Landlord, and, at Landlord's request, security for payment of all costs.

(2) Tenant shall perform all Work so as to maintain peace and harmony among other contractors serving the Project and shall avoid interference with other work to be performed or services to be rendered in the Project.

(3) The Work shall be performed in a good and workmanlike manner, meeting the standard for construction and quality of materials in the Building, and shall comply with all insurance requirements and all applicable governmental laws, ordinances and regulations ("Governmental Requirements").

(4) Tenant shall perform all Work so as to minimize or prevent disruption to other tenants, and Tenant shall comply with all reasonable requests of Landlord in response to complaints from other tenants.

(5) Tenant shall perform all Work in compliance with Landlord's "Policies, Rules and Procedures for Construction Projects" in effect at the time the Work is performed.

(6) Tenant shall permit Landlord to supervise all Work. Landlord may charge a supervisory fee not to exceed ten percent (10%) of labor, material, and all other costs of the Work, if Landlord's employees or contractors perform the Work.

(7) Upon completion, Tenant shall furnish Landlord with contractor's affidavits and full and final statutory waivers of liens from all contractors and subcontractors, as-built plans and specifications, and receipted bills covering all labor and materials, and all other close-out documentation required in Landlord's "Policies, Rules and Procedures for Construction Projects".

B. Damage to Systems. If any part of the mechanical, electrical or other systems in the Premises shall be damaged, Tenant shall promptly notify Landlord, and Landlord shall repair such damage. Landlord may also at any reasonable time make any repairs or alterations which Landlord

deems necessary for the safety or protection of the Project, or which Landlord is required to make by any court or pursuant to any Governmental Requirement. Tenant shall at its expense make all other repairs necessary to keep the Premises, and Tenant's fixtures and personal property, in good order, condition and repair; to the extent Tenant fails to do so within ten (10) days after written demand by Landlord (or with no demand in the case of an emergency), Landlord may make such repairs itself. The cost of any repairs made by Landlord on account of Tenant's default, or on account of the misuse or neglect by Tenant or its invitees, contractors or agents anywhere in the Project, shall become Additional Rent payable by Tenant on demand.

C. No Liens. Tenant has no authority to cause or permit any lien or encumbrance of any kind to affect Landlord's interest in the Project; any such lien or encumbrance shall attach to Tenant's interest only. If any mechanic's lien shall be filed or claim of lien made for work or materials furnished to Tenant, then Tenant shall at its expense within ten (10) days thereafter either discharge or contest the lien or claim. If Tenant contests the lien or claim, then Tenant shall (i) within such ten (10) day period, provide Landlord adequate security for the lien or claim by bonding in accordance with the Texas Property Code, (ii) contest the lien or claim in good faith by appropriate proceedings that operate to stay its enforcement, and (iii) pay promptly any final adverse judgment entered in any such proceeding. If Tenant does not comply with these requirements, Landlord may discharge the lien or claim, and the amount paid, as well as attorney's fees and other expenses incurred by Landlord, shall become Additional Rent payable by Tenant on demand.

D. Ownership of Improvements. All Work as defined in this Section 5, partitions, hardware, equipment, machinery and all other improvements and all fixtures except trade fixtures, constructed in the Premises by either Landlord or Tenant, (i) shall become Landlord's property upon installation without compensation to Tenant, unless Landlord consents otherwise in writing, and (ii) shall at Landlord's option either (a) be surrendered to Landlord with the Premises at the termination of the Lease or of Tenant's right to possession, or (b) be removed in accordance with Subsection 5E below (unless Landlord, at the time it gives its consent to the performance of such construction, expressly waives in writing the right to require such removal).

E. Removal at Termination. Upon the termination of this Lease or Tenant's right of possession, Tenant shall remove from the Project its trade fixtures, furniture, moveable equipment and other personal property, any improvements required to be removed by Tenant pursuant to Section 5D, and any improvements made by Tenant to any portion of the Project other than the Premises. Tenant shall repair all damage caused by the installation or removal of any of the foregoing items. If Tenant does not timely remove such property, then Tenant shall be conclusively presumed to have, at Landlord's election (i) conveyed such property to Landlord without compensation or (ii) abandoned such property, and Landlord may dispose of or store any part thereof in any manner at Tenant's sole cost, without waiving Landlord's right to claim from Tenant all expenses arising out of Tenant's failure to remove the property, and without liability to Tenant or any other person. Landlord shall have no duty to be a bailee of any such personal property. If Landlord elects abandonment, Tenant shall pay to Landlord, upon demand, any expenses incurred for removal, repair or disposition.

6. USE OF PREMISES. Tenant shall use the Premises only for general office purposes. Tenant shall not allow any use of the Premises which will negatively affect the cost of

coverage of Landlord's insurance on the Project. Tenant shall not allow any inflammable or explosive liquids or materials to be kept on the Premises. Tenant shall not allow any use of the Premises which would cause the value or utility of any part of the Premises to diminish or would interfere with any other tenant or with the operation of the Project by Landlord. Tenant shall not permit any nuisance or waste upon the Premises, or allow any offensive noise or odor in or around the Premises.

If any governmental authority shall deem the Premises to be a "place of public accommodation" under the Americans with Disabilities Act or any other comparable law as a result of Tenant's use, Tenant shall either modify its use to cause such authority to rescind its designation or be responsible for any alterations, structural or otherwise, required to be made to the Building or the Premises under such laws.

7. **GOVERNMENTAL REQUIREMENTS AND BUILDING RULES.** Tenant shall comply with all Governmental Requirements applying to its use of the Premises. Tenant shall also comply with all reasonable rules established for the Project from time to time by Landlord. The present rules and regulations are contained in Appendix B. Failure by another tenant to comply with the rules or failure by Landlord to enforce them shall not relieve Tenant of its obligation to comply with the rules or make Landlord responsible to Tenant in any way. Landlord shall use reasonable efforts to apply the rules and regulations uniformly with respect to Tenant and tenants in the Building under leases containing rules and regulations similar to this Lease. In the event of alterations and repairs performed by Tenant, Tenant shall comply with the provisions of Section 5 of this Lease and also Landlord's "Policies, Rules and Regulations for Construction Projects."

8. **WAIVER OF CLAIMS; INDEMNIFICATION; INSURANCE.**

A. **Waiver of Claims.** To the extent permitted by law, Tenant waives any claims it may have against Landlord or its officers, directors, employees or agents for business interruption or damage to property sustained by Tenant as the result of any act or omission of Landlord, to the extent typically covered under policies of "All Risks" Property Insurance.

To the extent permitted by law, Landlord waives any claims it may have against Tenant or its officers, directors, employees or agents for loss of rents (other than Rent) or damage to property sustained by Landlord as the result of any act or omission of Tenant, to the extent typically covered under policies of "All Risks" Property Insurance.

B. **Indemnification.** Tenant shall indemnify, defend and hold harmless Landlord and its officers, directors, employees and agents against any claim by any third party for injury to any person or damage to or loss of any property occurring in the Project and arising from the use or occupancy of the Premises or from any other act or omission or negligence of Tenant or any of Tenant's employees or agents. Tenant's obligations under this section shall survive the termination of this Lease.

Landlord shall indemnify, defend and hold harmless Tenant and its officers, directors, employees and agents against any claim by any third party for injury to any person or damage to or loss of any property occurring in the Project and arising from any act or omission or negligence of

Landlord or any of Landlord's employees or agents. Landlord's obligations under this section shall survive the termination of this Lease.

C. Tenant's Insurance. Tenant shall maintain insurance as follows, with such other terms, coverages and insurers, as Landlord shall reasonably require from time to time:

(1) Commercial General Liability Insurance, with (a) Contractual Liability including the indemnification provisions contained in this Lease, (b) a severability of interest endorsement, (c) limits of not less than One Million Dollars (\$1,000,000) combined single limit per occurrence and not less than One Million Dollars (\$1,000,000) in the aggregate for bodily injury, sickness or death, and property damage, and umbrella coverage of not less than Four Million Dollars (\$4,000,000).

(2) Property Insurance against "All Risks" of physical loss covering the replacement cost of all improvements, fixtures and personal property. Tenant waives all rights of subrogation, and Tenant's property insurance shall include a waiver of subrogation in favor of Landlord and its employees and agents.

(3) If required by Texas law, workers' compensation or similar insurance in form and amounts reasonably required by Landlord in accordance with such law.

Such insurance shall contain a waiver of subrogation provision in favor of Landlord and its employees and agents.

Tenant's insurance shall be primary and not contributory to that carried by Landlord, its agents, or mortgagee. Landlord, and if any, Landlord's building manager or agent, mortgagee and ground lessor shall be named as additional insureds as respects to insurance required of the Tenant in Section 8C(1). The company or companies writing any insurance which Tenant is required to maintain under this Lease, as well as the form of such insurance, shall at all times be subject to Landlord's approval, and any such company shall be licensed to do business in the state in which the Building is located. Such insurance companies shall have an A.M. Best rating of A VI or better.

Tenant shall cause any contractor of Tenant performing work on the Premises to maintain insurance as follows, with such other terms, coverages and insurers, as Landlord shall reasonably require from time to time:

(1) Commercial General Liability Insurance, including contractor's liability coverage, contractual liability coverage, completed operations coverage, broad form property damage endorsement, and contractor's protective liability coverage, to afford protection with limits, for each occurrence, of not less than One Million Dollars (\$1,000,000) with respect to personal injury, death or property damage.

(2) If required by Texas law, workers' compensation or similar insurance in form and amounts reasonably required by Landlord in accordance with such law.

Such insurance shall contain a waiver of subrogation provision in favor of Landlord and its employees and agents.

Tenant's contractor's insurance shall be primary and not contributory to that carried by Tenant, Landlord, their agents or mortgagees. Tenant and Landlord, and if any, Landlord's building manager or agent, mortgagee or ground lessor shall be named as additional insured on Tenant's contractor's insurance policies.

D. Insurance Certificates. Tenant shall deliver to Landlord certificates evidencing all required insurance no later than five (5) days prior to the Commencement Date and each renewal date. Each certificate will provide for thirty (30) days prior written notice of cancellation to Landlord and Tenant.

E. Landlord's Insurance. Landlord shall maintain "All-Risk" property insurance at replacement cost, including loss of rents, on the Building, and Commercial General Liability insurance policies covering the common areas of the Building, each with such terms, coverages and conditions as are normally carried by reasonably prudent owners of properties similar to the Project. With respect to property insurance, Landlord and Tenant mutually waive all rights of subrogation, and the respective "All-Risk" coverage property insurance policies carried by Landlord and Tenant shall contain enforceable waiver of subrogation endorsements.

9. FIRE AND OTHER CASUALTY.

A. Termination. If a fire or other casualty causes substantial damage to the Building or the Premises, Landlord shall engage a registered architect to certify within one (1) month of the casualty to both Landlord and Tenant the amount of time needed to restore the Building and the Premises to tenantability, using standard working methods. If the time needed exceeds nine (9) months from the beginning of the restoration, or two (2) months therefrom if the restoration would begin during the last twelve (12) months of the Lease, then in the case of the Premises, either Landlord or Tenant may terminate this Lease, and in the case of the Building, Landlord may terminate this Lease, by notice to the other party within ten (10) days after the notifying party's receipt of the architect's certificate. The termination shall be effective thirty (30) days from the date of the notice and Rent shall be paid by Tenant to that date, with an abatement for any portion of the Premises which has been untenable after the casualty.

B. Restoration. If a casualty causes damage to the Building or the Premises but this Lease is not terminated for any reason, then subject to the rights of any mortgagees or ground lessors, Landlord shall obtain the applicable insurance proceeds and diligently restore the Building and the Premises subject to current Governmental Requirements. Tenant shall replace its damaged improvements, personal property and fixtures. Rent shall be abated on a per diem basis during the restoration for any portion of the Premises which is untenable, except to the extent that Tenant's negligence caused the casualty.

10. EMINENT DOMAIN. If a part of the Project is taken by eminent domain or deed in lieu thereof which is so substantial that the Premises cannot reasonably be used by Tenant for the operation of its business, then either party may terminate this Lease effective as of the date of the

taking. If any substantial portion of the Project is taken without affecting the Premises, then Landlord may terminate this Lease as of the date of such taking. Rent shall abate from the date of the taking in proportion to any part of the Premises taken. The entire award for a taking of any kind shall be paid to Landlord. Tenant may pursue a separate award for its trade fixtures and moving expenses in connection with the taking, but only if such recovery does not reduce the award payable to Landlord. All obligations accrued to the date of the taking shall be performed by the party liable to perform said obligations, as set forth herein.

11. **RIGHTS RESERVED TO LANDLORD.** Landlord may exercise at any time any of the following rights respecting the operation of the Project without liability to the Tenant of any kind:

A. **Name.** To change the name or street address of the Building or the suite number(s) of the Premises.

B. **Signs.** To install and maintain any signs on the exterior and in the interior of the Building, and to approve at its sole discretion, prior to installation, any of Tenant's signs in the Premises visible from the common areas or the exterior of the Building.

C. **Window Treatments.** To approve, at its discretion, prior to installation, any shades, blinds, ventilators or window treatments of any kind, as well as any lighting within the Premises that may be visible from the exterior of the Building or any interior common area.

D. **Keys.** To retain and use at any time passkeys to enter the Premises or any door within the Premises. Tenant shall not alter or add any lock or bolt.

E. **Access.** To have access to inspect the Premises, and to perform its obligations, or make repairs, alterations, additions or improvements, as permitted by this Lease.

F. **Preparation for Reoccupancy.** To decorate, remodel, repair, alter or otherwise prepare the Premises for reoccupancy at any time after Tenant abandons the Premises, without relieving Tenant of any obligation to pay Rent.

G. **Heavy Articles.** To approve the weight, size, placement and time and manner of movement within the Building of any safe, central filing system or other heavy article of Tenant's property. Tenant shall move its property entirely at its own risk.

H. **Show Premises.** To show the Premises to prospective purchasers, tenants, brokers, lenders, investors, rating agencies or others at any reasonable time, provided that Landlord gives prior notice to Tenant and does not materially interfere with Tenant's use of the Premises.

I. **Relocation of Tenant.** To relocate the Tenant, upon thirty days' prior written notice, from all or part of the Premises (the "Old Premises") to another area in the Project (the "new premises"), provided that:

- (1) the size of the new premises is at least equal to the size of the Old Premises

and (i) in the event of a partial relocation, contiguous space within the Old Premises on any single floor must remain intact; and (ii) if the Rentable Square Feet within the new premises is greater than the Old Premises, Base Rent and Tenant's Proportionate Share shall not be increased;

(2) Landlord pays the cost of moving the Tenant and improving the new premises to the standard of the Old Premises. Tenant shall cooperate with Landlord in all reasonable ways to facilitate the move, including supervising the movement of files or fragile equipment, designating new locations for furniture, equipment and new telephone and electrical outlets, and determining the color of paint in the new premises. Landlord shall also be responsible to pay for all reasonable costs associated with moving phone service, connectivity service, and a reasonable amount of reprinting of all business cards or stationary (for purposes of this clause, a reasonable amount of reprinting is an amount normally kept on hand by Tenant in the Premises).

J. Use of Lockbox. To designate a lockbox collection agent for collections of amounts due Landlord. In that case, the date of payment of Rent or other sums shall be the date of the agent's receipt of such payment or the date of actual collection if payment is made in the form of a negotiable instrument thereafter dishonored upon presentment. However, Landlord may reject any payment for all purposes as of the date of receipt or actual collection by mailing to Tenant within 21 days after such receipt or collection a check equal to the amount sent by Tenant.

K. Repairs and Alterations. To make repairs or alterations to the Project and in doing so transport any required material through the Premises, to close entrances, doors, corridors, elevators and other facilities in the Project, to open any ceiling in the Premises, or to temporarily suspend services or use of common areas in the Building. Landlord may perform any such repairs or alterations during ordinary business hours, except that Tenant may require any Work in the Premises to be done after business hours if Tenant pays Landlord for overtime and any other expenses incurred. Landlord may do or permit any work on any nearby building, land, street, alley or way.

L. Landlord's Agents. If Tenant is in default under this Lease, possession of Tenant's funds or negotiation of Tenant's negotiable instrument by any of Landlord's agents shall not waive any breach by Tenant or any remedies of Landlord under this Lease.

M. Building Services. To install, use and maintain through the Premises, pipes, conduits, wires and ducts serving the Building, provided that such installation, use and maintenance does not unreasonably interfere with Tenant's use of the Premises.

N. Other Actions. To take any other action which Landlord deems reasonable in connection with the operation, maintenance or preservation of the Building.

12. TENANT'S DEFAULT. Any of the following shall constitute a default by Tenant:

A. Rent Default. Tenant fails to pay any Rent when due;

B. Assignment/Sublease or Hazardous Substances Default. Tenant defaults in its

obligations under Section 17 (Assignment and Sublease) or Section 27 (Hazardous Substances);

C. Other Performance Default. Tenant fails to perform any other obligation to Landlord under this Lease, and, in the case of only the first two (2) such failures during the Term of this Lease, this failure continues for ten (10) days after written notice from Landlord, except that if Tenant begins to cure its failure within the ten (10) day period but cannot reasonably complete its cure within such period, then, so long as Tenant continues to diligently attempt to cure its failure, the ten (10) day period shall be extended to thirty (30) days, or such lesser period as is reasonably necessary to complete the cure;

D. Credit Default. One of the following credit defaults occurs:

(1) Tenant commences any proceeding under any law relating to bankruptcy, insolvency, reorganization or relief of debts, or seeks appointment of a receiver, trustee, custodian or other similar official for the Tenant or for any substantial part of its property, or any such proceeding is commenced against Tenant and either remains undismissed for a period of thirty days or results in the entry of an order for relief against Tenant which is not fully stayed within seven days after entry;

(2) Tenant becomes insolvent or bankrupt, does not generally pay its debts as they become due, or admits in writing its inability to pay its debts, or makes a general assignment for the benefit of creditors;

(3) Any third party obtains a levy or attachment under process of law against Tenant's leasehold interest.

E. Vacation or Abandonment Default. Tenant vacates or abandons the Premises.

13. LANDLORD REMEDIES.

A. Termination of Lease or Possession. If Tenant defaults, Landlord may elect by notice to Tenant either to terminate this Lease or to terminate Tenant's possession of the Premises without terminating this Lease. In either case, Tenant shall immediately vacate the Premises and deliver possession to Landlord, and Landlord may repossess the Premises and may, at Tenant's sole cost, remove any of Tenant's signs and any of its other property, without relinquishing its right to receive Rent or any other right against Tenant.

B. Lease Termination Damages. If Landlord terminates the Lease, Tenant shall pay to Landlord all Rent due on or before the date of termination, plus Landlord's reasonable estimate of the aggregate Rent that would have been payable from the date of termination through the Termination Date, reduced by the rental value of the Premises calculated as of the date of termination for the same period, taking into account anticipated vacancy prior to reletting, reletting expenses and market concessions, both discounted to present value at the rate of five percent (5%) per annum. If Landlord shall relet any part of the Premises for any part of such period before such present value amount shall have been paid by Tenant or finally determined by a court, then the amount of Rent payable pursuant to such reletting (taking into account vacancy prior to reletting and any reletting

expenses or concessions) shall be deemed to be the reasonable rental value for that portion of the Premises relet during the period of the reletting.

C. Possession Termination Damages. If Landlord terminates Tenant's right to possession without terminating the Lease and Landlord takes possession of the Premises itself, Landlord may relet any part of the Premises for such Rent, for such time, and upon such terms as Landlord in its sole discretion shall determine, without any obligation to do so prior to renting other vacant areas in the Building. Any proceeds from reletting the Premises shall first be applied to the expenses of reletting, including redecoration, repair, alteration, advertising, brokerage, legal, and other reasonably necessary expenses. If the reletting proceeds after payment of expenses are insufficient to pay the full amount of Rent under this Lease, Tenant shall pay such deficiency to Landlord monthly upon demand as it becomes due. Any excess proceeds shall be retained by Landlord.

D. Landlord's Remedies Cumulative. All of Landlord's remedies under this Lease shall be in addition to all other remedies Landlord may have at law or in equity. Waiver by Landlord of any breach of any obligation by Tenant shall be effective only if it is in writing, and shall not be deemed a waiver of any other breach, or any subsequent breach of the same obligation. Landlord's acceptance of payment by Tenant shall not constitute a waiver of any breach by Tenant, and if the acceptance occurs after Landlord's notice to Tenant, or termination of the Lease or of Tenant's right to possession, the acceptance shall not affect such notice or termination. Acceptance of payment by Landlord after commencement of a legal proceeding or final judgment shall not affect such proceeding or judgment. Landlord may advance such monies and take such other actions for Tenant's account as reasonably may be required to cure or mitigate any default by Tenant. Tenant shall immediately reimburse Landlord for any such advance, and such sums shall bear interest at the default interest rate under Section 2D(2) above until paid.

E. Waiver of Trial by Jury. **EACH PARTY WAIVES TRIAL BY JURY IN THE EVENT OF ANY LEGAL PROCEEDING BROUGHT BY THE OTHER IN CONNECTION WITH THIS LEASE. EACH PARTY SHALL BRING ANY ACTION AGAINST THE OTHER IN CONNECTION WITH THIS LEASE IN A FEDERAL OR STATE COURT LOCATED IN TRAVIS COUNTY, TEXAS, CONSENTS TO THE JURISDICTION OF SUCH COURTS, AND WAIVES ANY RIGHT TO HAVE ANY PROCEEDING TRANSFERRED FROM SUCH COURTS ON THE GROUND OF IMPROPER VENUE OR INCONVENIENT FORUM.**

F. Litigation Costs. Tenant shall pay Landlord's reasonable attorneys' fees and other costs in enforcing this Lease, whether or not suit is filed.

14. SURRENDER. Upon termination of this Lease or Tenant's right to possession, Tenant shall return the Premises to Landlord in good order and condition, ordinary wear and casualty damage excepted. If Landlord requires Tenant to remove any alterations, then Tenant shall remove the alterations in a good and workmanlike manner and restore the Premises to its condition prior to their installation.

15. HOLDOVER. Tenant shall have no right to holdover possession of the Premises

after the expiration or termination of this Lease without Landlord's prior written consent, which consent may be withheld in Landlord's sole and absolute discretion. If, however, Tenant retains possession of any part of the Premises after the Term, Tenant shall become a month-to-month tenant for the entire Premises upon all of the terms of this Lease as might be applicable to such month-to-month tenancy, except that Tenant shall pay all of Base Rent and Operating Cost Share Rent at one and one half the rate in effect immediately prior to such holdover, computed on a monthly basis for each full or partial month Tenant remains in possession. Tenant shall also pay Landlord all of Landlord's direct and consequential damages resulting from Tenant's holdover, and Tenant shall indemnify and hold Landlord harmless from and against any and all claims made by other tenants or prospective tenants against Landlord for delay by Landlord in delivering possession of the Premises because of any such holdover. No acceptance of Rent or other payments by Landlord under these holdover provisions shall operate as a waiver of Landlord's right to regain possession upon demand, or any other of Landlord's remedies.

16. SUBORDINATION TO GROUND LEASES AND MORTGAGES.

A. Subordination. This Lease shall be subordinate to any present or future ground lease or mortgage respecting the Project, and any amendments to such ground lease or mortgage, at the election of the ground lessor or mortgagee as the case may be, effected by notice to Tenant in the manner provided in this Lease. The subordination shall be effective upon such notice, but at the request of Landlord or ground lessor or mortgagee, Tenant shall within ten (10) days of the request, execute and deliver to the requesting party any reasonable documents provided to evidence the subordination. Any mortgagee has the right, at its option, to subordinate its mortgage to the terms of this Lease, without notice to, nor the consent of, Tenant.

B. Termination of Ground Lease or Foreclosure of Mortgage. If any ground lease is terminated or mortgage foreclosed or deed in lieu of foreclosure given and the ground lessor, mortgagee, or purchaser at a foreclosure sale shall thereby become the owner of the Project, at the option of such ground lessor, mortgagee or purchaser, Tenant shall attorn to such ground lessor or mortgagee or purchaser without any deduction or setoff by Tenant, and this Lease shall continue in effect as a direct lease between Tenant and such ground lessor, mortgagee or purchaser. The ground lessor or mortgagee or purchaser shall be liable as Landlord only during the time such ground lessor or mortgagee or purchaser is the owner of the Project. At the request of Landlord, ground lessor or mortgagee, Tenant shall execute and deliver within ten (10) days of the request any document furnished by the requesting party to evidence Tenant's agreement to attorn.

C. Security Deposit. Any ground lessor or mortgagee shall be responsible for the return of any security deposit by Tenant only to the extent the security deposit is received by such ground lessor or mortgagee.

D. Notice and Right to Cure. The Project is subject to any ground lease and mortgage identified with name and address of ground lessor or mortgagee in Appendix D to this Lease (as the same may be amended from time to time by written notice to Tenant). Tenant agrees to send by registered or certified mail to any ground lessor or mortgagee identified either in such Appendix or in any later notice from Landlord to Tenant a copy of any notice of default sent by Tenant to Landlord. If Landlord fails to cure such default within the required time period under this Lease, but ground

lessor or mortgagee begins to cure within ten (10) days after such period and proceeds diligently to complete such cure, then ground lessor or mortgagee shall have such additional time as is necessary to complete such cure, including any time necessary to obtain possession if possession is necessary to cure, and Tenant shall not begin to enforce its remedies so long as the cure is being diligently pursued.

E. Definitions. As used in this Section 16, "mortgage" shall include "deed of trust" and "mortgagee" shall include "beneficiary" under such deed of trust, "mortgagee" shall include the mortgagee of any ground lessee, and "ground lessor", "mortgagee", and "purchaser at a foreclosure sale" shall include, in each case, all of its successors and assigns, however remote.

17. ASSIGNMENT AND SUBLEASE.

A. In General. Tenant shall not, without the prior consent of Landlord in each case, (i) make or allow any assignment or transfer, by operation of law or otherwise, of any part of Tenant's interest in this Lease, (ii) grant or allow any lien or encumbrance, by operation of law or otherwise, upon any part of Tenant's interest in this Lease, (iii) sublet any part of the Premises, or (iv) permit anyone other than Tenant and its employees to occupy any part of the Premises. Tenant shall remain primarily liable for all of its obligations under this Lease, notwithstanding any assignment or transfer. No consent granted by Landlord shall be deemed to be a consent to any subsequent assignment or transfer, lien or encumbrance, sublease or occupancy. Tenant shall pay all of Landlord's attorneys' fees and other expenses incurred in connection with any consent requested by Tenant or in reviewing any proposed assignment or subletting. Any assignment or transfer, grant of lien or encumbrance, or sublease or occupancy without Landlord's prior written consent shall be void. If Tenant shall assign this Lease or sublet the Premises in its entirety any rights of Tenant to renew this Lease, extend the Term or to lease additional space in the Project shall be extinguished thereby and will not be transferred to the assignee or subtenant, all such rights being personal to the Tenant named herein.

B. Landlord's Consent. Landlord will not unreasonably withhold its consent to any proposed assignment or subletting. It shall be reasonable for Landlord to withhold its consent to any assignment or sublease if (i) Tenant is in default under this Lease, (ii) the proposed assignee or sublessee is a tenant in the Project or an affiliate of such a tenant or a party that Landlord has identified as a prospective tenant in the Project, (iii) the financial responsibility, nature of business, and character of the proposed assignee or subtenant are not all reasonably satisfactory to Landlord, (iv) in the reasonable judgment of Landlord the purpose for which the assignee or subtenant intends to use the Premises (or a portion thereof) is not in keeping with Landlord's standards for the Building or are in violation of the terms of this Lease or any other leases in the Project, (v) the proposed assignee or subtenant is a government entity, or (vi) the proposed assignment is for less than the entire Premises or for less than the remaining Term of the Lease. The foregoing shall not exclude any other reasonable basis for Landlord to withhold its consent.

C. Procedure. Tenant shall notify Landlord of any proposed assignment or sublease at least thirty (30) days prior to its proposed effective date. The notice shall include the name and address of the proposed assignee or subtenant, its corporate affiliates in the case of a corporation and its partners in a case of a partnership, an execution copy of the proposed assignment or sublease, and sufficient information to permit Landlord to determine the financial responsibility and character of

the proposed assignee or subtenant. As a condition to any effective assignment of this Lease, the assignee shall execute and deliver in form satisfactory to Landlord at least fifteen (15) days prior to the effective date of the assignment, an assumption of all of the obligations of Tenant under this Lease. As a condition to any effective sublease, subtenant shall execute and deliver in form satisfactory to Landlord at least fifteen (15) days prior to the effective date of the sublease, an agreement to comply with all of Tenant's obligations under this Lease, and at Landlord's option, an agreement (except for the economic obligations which subtenant will undertake directly to Tenant) to attorn to Landlord under the terms of the sublease in the event this Lease terminates before the sublease expires.

D. Change of Management or Ownership. Any transfer of the direct or indirect power to affect the management or policies of Tenant or direct or indirect change in 25% or more of the ownership interest in Tenant shall constitute an assignment of this Lease.

E. Excess Payments. If Tenant shall assign this Lease or sublet any part of the Premises for consideration in excess of the pro-rata portion of Rent applicable to the space subject to the assignment or sublet, then Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of any such excess immediately upon receipt.

F. Recapture. Landlord may, by giving written notice to Tenant within thirty (30) days after receipt of Tenant's notice of assignment or subletting, terminate this Lease with respect to the space described in Tenant's notice, as of the effective date of the proposed assignment or sublease and all obligations under this Lease as to such space shall expire except as to any obligations that expressly survive any termination of this Lease.

18. CONVEYANCE BY LANDLORD. If Landlord shall at any time transfer its interest in the Project or this Lease, Landlord shall be released of any obligations occurring after such transfer, except the obligation to return to Tenant any security deposit not delivered to its transferee, and Tenant shall look solely to Landlord's successors for performance of such obligations. This Lease shall not be affected by any such transfer.

19. ESTOPPEL CERTIFICATE. Tenant shall, within ten (10) days of receiving a request from Landlord, execute, acknowledge in recordable form, and deliver to Landlord or its designee a certificate stating, subject to a specific statement of any applicable exceptions, that the Lease as amended to date is in full force and effect, that the Tenant is paying Rent and other charges on a current basis, and that to the best of the knowledge of Tenant, Landlord has committed no uncured defaults and Tenant has no offsets or claims. Tenant may also be required to state the date of commencement of payment of Rent, the Commencement Date, the Termination Date, the Base Rent, the current Operating Cost Share Rent estimate, the status of any improvements required to be completed by Landlord, the amount of any security deposit, and such other matters as may be reasonably requested. Failure to deliver such certificate and statement within the time required shall be conclusive evidence against Tenant that this Lease, with any amendments identified by Landlord, is in full force and effect, that there are no uncured defaults by Landlord, that not more than one month's Rent has been paid in advance, that Tenant has not paid any security deposit, and that Tenant has no claims or offsets against Landlord.

20. SECURITY DEPOSIT. Tenant shall deposit with Landlord on the date of this Lease, security for the performance of all of its obligations in the amount set forth on the Schedule. If Tenant defaults under this Lease, Landlord may use any part of the Security Deposit to make any defaulted payment, to pay for Landlord's cure of any defaulted obligation, or to compensate Landlord for any loss or damage resulting from any default. To the extent any portion of the deposit is used, Tenant shall within five (5) days after demand from Landlord restore the deposit to its full amount. Landlord may keep the Security Deposit in its general funds and shall not be required to pay interest to Tenant on the deposit amount. If Tenant shall perform all of its obligations under this Lease and return the Premises to Landlord at the end of the Term, Landlord shall return all of the remaining Security Deposit to Tenant within thirty (30) days after the end of the Term. The Security Deposit shall not serve as an advance payment of Rent or a measure of Landlord's damages for any default under this Lease.

If Landlord transfers its interest in the Project or this Lease, Landlord may transfer the Security Deposit to its transferee. Upon such transfer, Landlord shall have no further obligation to return the Security Deposit to Tenant, and Tenant's right to the return of the Security Deposit shall apply solely against Landlord's transferee.

21. FORCE MAJEURE. Landlord shall not be in default under this Lease to the extent Landlord is unable to perform any of its obligations on account of any strike or labor problem, energy shortage, governmental pre-emption or prescription, national emergency, or any other cause of any kind beyond the reasonable control of Landlord ("Force Majeure").

22. NOTICES. All notices, consents, approvals and similar communications to be given by one party to the other under this Lease, shall be given in writing, mailed or personally delivered as follows:

A. Landlord. To Landlord as follows:

c/o CarrAmerica Realty Corporation
300 West 6th Street, Suite 1350
Austin, Texas 78701
Attn: Market Officer

with a copy to:

CarrAmerica Realty Corporation
1850 K Street, N.W., Suite 500
Washington, D.C. 20006
Attn: Lease Administration

or to such other person at such other address as Landlord may designate by notice to Tenant.

B. Tenant. To Tenant as follows:

Perficient, Inc.

1120 South Capital of Texas Highway, Suite 220, Building III
Austin, Texas 78746

or to such other person at such other address as Tenant may designate by notice to Landlord.

Mailed notices shall be sent by United States certified or registered mail, or by a reputable national overnight courier service, postage prepaid. Mailed notices shall be deemed to have been given on the earlier of actual delivery or three (3) business days after posting in the United States mail in the case of registered or certified mail, and one business day in the case of overnight courier.

23. QUIET POSSESSION. So long as Tenant shall perform all of its obligations under this Lease, Tenant shall enjoy peaceful and quiet possession of the Premises against any party claiming through the Landlord.

24. REAL ESTATE BROKER. Tenant represents to Landlord that Tenant has not dealt with any real estate broker with respect to this Lease except for any broker(s) listed in the Schedule, and no other broker is in any way entitled to any broker's fee or other payment in connection with this Lease. Tenant shall indemnify and defend Landlord against any claims by any other broker or third party for any payment of any kind in connection with this Lease.

25. MISCELLANEOUS.

A. Successors and Assigns. Subject to the limits on Tenant's assignment contained in Section 17, the provisions of this Lease shall be binding upon and inure to the benefit of all successors and assigns of Landlord and Tenant.

B. Date Payments Are Due. Except for payments to be made by Tenant under this Lease which are due upon demand or are due in advance (such as Base Rent), Tenant shall pay to Landlord any amount for which Landlord renders a statement of account within thirty (30) days of Tenant's receipt of Landlord's statement.

C. Meaning of "Landlord", "Re-Entry," "including" and "Affiliate". The term "Landlord" means only the owner of the Project and the lessor's interest in this Lease from time to time. The words "re-entry" and "re-enter" are not restricted to their technical legal meaning. The words "including" and similar words shall mean "without limitation." The word "affiliate" shall mean a person or entity controlling, controlled by or under common control with the applicable entity. "Control" shall mean the power directly or indirectly, by contract or otherwise, to direct the management and policies of the applicable entity.

D. Time of the Essence. Time is of the essence of each provision of this Lease.

E. No Option. This document shall not be effective for any purpose until it has been executed and delivered by both parties; execution and delivery by one party shall not create any option or other right in the other party.

F. Severability. The unenforceability of any provision of this Lease shall not affect any

other provision.

G. Governing Law. This Lease shall be governed in all respects by the laws of the state in which the Project is located, without regard to the principles of conflicts of laws.

H. Lease Modification. Tenant agrees to modify this Lease in any way requested by a mortgagee which does not cause increased expense to Tenant or otherwise materially adversely affect Tenant's interests under this Lease.

I. No Oral Modification. No modification of this Lease shall be effective unless it is a written modification signed by both parties.

J. Landlord's Right to Cure. If Landlord breaches any of its obligations under this Lease, Tenant shall notify Landlord in writing and shall take no action respecting such breach so long as Landlord promptly begins to cure the breach and diligently pursues such cure to its completion. Landlord may cure any default by Tenant; any expenses incurred shall become Additional Rent due from Tenant on demand by Landlord.

K. Captions. The captions used in this Lease shall have no effect on the construction of this Lease.

L. Authority. Landlord and Tenant each represents to the other that it has full power and authority to execute and perform this Lease.

M. Landlord's Enforcement of Remedies. Landlord may enforce any of its remedies under this Lease either in its own name or through an agent.

N. Entire Agreement. This Lease, together with all Appendices, constitutes the entire agreement between the parties. No representations or agreements of any kind have been made by either party which are not contained in this Lease.

O. Landlord's Title. Landlord's title shall always be paramount to the interest of the Tenant, and nothing in this Lease shall empower Tenant to do anything which might in any way impair Landlord's title.

P. Light and Air Rights. Landlord does not grant in this Lease any rights to light and air in connection with Project. Landlord reserves to itself, the Land, the Building below the improved floor of each floor of the Premises, the Building above the ceiling of each floor of the Premises, the exterior of the Premises and the areas on the same floor outside the Premises, along with the areas within the Premises required for the installation and repair of utility lines and other items required to serve other tenants of the Building.

Q. Singular and Plural. Wherever appropriate in this Lease, a singular term shall be construed to mean the plural where necessary, and a plural term the singular. For example, if at any time two parties shall constitute Landlord or Tenant, then the relevant term shall refer to both parties together.

R. No Recording by Tenant. Tenant shall not record in any public records any memorandum or any portion of this Lease.

S. Exclusivity. Landlord does not grant to Tenant in this Lease any exclusive right except the right to occupy its Premises.

T. No Construction Against Drafting Party. The rule of construction that ambiguities are resolved against the drafting party shall not apply to this Lease.

U. Survival. All obligations of Landlord and Tenant under this Lease shall survive the termination of this Lease.

V. Rent Not Based on Income. No rent or other payment in respect of the Premises shall be based in any way upon net income or profits from the Premises. Tenant may not enter into or permit any sublease or license or other agreement in connection with the Premises which provides for a rental or other payment based on net income or profit.

W. Building Manager and Service Providers. Landlord may perform any of its obligations under this Lease through its employees or third parties hired by the Landlord.

X. Late Charge and Interest on Late Payments. Without limiting the provisions of Section 12A, if Tenant fails to pay any installment of Rent or other charge to be paid by Tenant pursuant to this Lease within five (5) business days after the same becomes due and payable, then Tenant shall pay a late charge equal to the greater of five percent (5%) of the amount of such payment or \$250. In addition, interest shall be paid by Tenant to Landlord on any late payments of Rent from the date due until paid at the rate provided in Section 2D(2). Such late charge and interest shall constitute Additional Rent due and payable by Tenant to Landlord upon the date of payment of the delinquent payment referenced above.

Y. Tenant's Financial Statements. Within ten (10) days after Landlord's written request therefor, Tenant shall deliver to Landlord the current audited annual and quarterly financial statements of Tenant, and annual audited financial statements of the two (2) years prior to the current year's financial statements, each with an opinion of a certified public accountant and including a balance sheet and profit and loss statement, all prepared in accordance with generally accepted accounting principles consistently applied.

Z. Usury Savings. All agreements between Landlord and Tenant, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever shall the amount contracted for, charged or received by Landlord for the use, forbearance or retention of money hereunder or otherwise exceed the maximum amount which Landlord is legally entitled to contract for, charge or collect under the applicable state or federal law. If, from any circumstance whatsoever, fulfillment of any provision hereof at the time performance of such provision shall be due shall involve transcending the limit of validity prescribed by law, then the obligation to be fulfilled shall be automatically reduced to the limit of such validity, and if from any such circumstance Landlord shall ever receive as interest or otherwise an amount in

excess of the maximum that can be legally collected, then such amount which would be excessive interest shall be applied to the reduction of rent hereunder, and if such amount which would be excessive interest exceeds such rent, then such additional amount shall be refunded to Tenant.

AA. Waiver of Warranties. TENANT HEREBY WAIVES THE BENEFIT OF ALL WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THE PREMISES INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR ANY COMMERCIAL OR OTHER PARTICULAR PURPOSE.

26. UNRELATED BUSINESS INCOME. If Landlord is advised by its counsel at any time that any part of the payments by Tenant to Landlord under this Lease may be characterized as unrelated business income under the United States Internal Revenue Code and its regulations, then Tenant shall enter into any amendment proposed by Landlord to avoid such income, so long as the amendment does not require Tenant to make more payments or accept fewer services from Landlord, than this Lease provides.

27. HAZARDOUS SUBSTANCES. Tenant shall not cause or permit any Hazardous Substances to be brought upon, produced, stored, used, discharged or disposed of in or near the Project unless Landlord has consented to such storage or use in its sole discretion. "Hazardous Substances" include those hazardous substances described in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq., the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Section 6901 et seq., any other applicable federal, state or local law, and the regulations adopted under these laws. If any lender or governmental agency shall require testing for Hazardous Substances in the Premises, Tenant shall pay for such testing. Tenant agrees to indemnify and hold Landlord harmless from all claims, demands, actions, liabilities, costs, expenses, damages and obligations of any nature arising from the contamination of the Project with Hazardous Substances as a result of or arising out of the use or occupancy of the Premises by Tenant. The foregoing indemnification shall survive the termination or expiration of this Lease.

28. EXCULPATION. Landlord shall have no personal liability under this Lease; its liability shall be limited to its interest in the Project, and shall not extend to any other property or assets of the Landlord. In no event shall any officer, director, employee, agent, shareholder, partner, member or beneficiary of Landlord be personally liable for any of Landlord's obligations hereunder.

29. LANDLORD'S LIEN. LANDLORD SHALL HAVE AND TENANT HEREBY GRANTS TO LANDLORD A CONTINUING SECURITY INTEREST FOR ALL RENT AND OTHER SUMS OF MONEY BECOMING DUE HEREUNDER FROM TENANT, UPON ALL GOODS, WARES, EQUIPMENT, FIXTURES, FURNITURE, INVENTORY, ACCOUNTS, CONTRACT RIGHTS, CHATTEL PAPER AND OTHER PERSONAL PROPERTY OF TENANT SITUATED ON THE PREMISES, WHICH IS LOCATED AT 1120 SOUTH CAPITAL OF TEXAS HIGHWAY, SUITE 220, BUILDING III, AUSTIN, TEXAS, AND SUCH PROPERTY SHALL NOT BE REMOVED THEREFROM WITHOUT THE CONSENT OF LANDLORD UNTIL ALL ARREARAGES IN RENT AS WELL AS ANY AND ALL OTHER SUMS OF MONEY THEN DUE TO LANDLORD HEREUNDER SHALL FIRST HAVE BEEN PAID AND DISCHARGED.

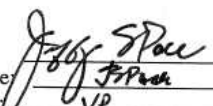
PRODUCTS OF COLLATERAL ARE ALSO COVERED. IN THE EVENT OF A DEFAULT UNDER THIS LEASE, LANDLORD SHALL HAVE, IN ADDITION TO ANY OTHER REMEDIES PROVIDED HEREIN OR BY LAW, ALL RIGHTS AND REMEDIES UNDER THE UNIFORM COMMERCIAL CODE, INCLUDING WITHOUT LIMITATION THE RIGHT TO SELL THE PROPERTY DESCRIBED IN THIS PARAGRAPH AT PUBLIC OR PRIVATE SALE UPON FIVE (5) DAYS NOTICE TO TENANT. TENANT HEREBY AGREES TO EXECUTE SUCH OTHER INSTRUMENTS NECESSARY OR DESIRABLE IN LANDLORD'S DISCRETION TO PERFECT THE SECURITY INTEREST HEREBY CREATED. ANY STATUTORY LIEN FOR RENT IS NOT HEREBY WAIVED, THE EXPRESS CONTRACTUAL LIEN HEREIN GRANTED BEING IN ADDITION AND SUPPLEMENTARY THERETO. LANDLORD AND TENANT AGREE THAT THIS LEASE AND SECURITY AGREEMENT SERVES AS A FINANCING STATEMENT AND THAT A COPY OR PHOTOGRAPHIC OR OTHER REPRODUCTION OF THIS PORTION OF THIS LEASE MAY BE FILED OF RECORD BY LANDLORD AND HAVE THE SAME FORCE AND EFFECT AS THE ORIGINAL. THIS SECURITY AGREEMENT AND FINANCING STATEMENT ALSO COVERS FIXTURES LOCATED AT THE PREMISES, AND MAY BE FILED FOR RECORD IN THE REAL ESTATE RECORDS. TENANT WARRANTS THAT THE COLLATERAL SUBJECT TO THE SECURITY INTEREST GRANTED HEREIN IS NOT PURCHASED OR USED BY TENANT FOR PERSONAL, FAMILY OR HOUSEHOLD PURPOSES.

IN WITNESS WHEREOF, the parties hereto have executed this Lease on the dates set forth below, but to be effective as of the date first set forth above.

LANDLORD:

CARRAMERICA REALTY, L.P., t/a The Setting

By: CarrAmerica Realty G.P. Holdings, Inc., a Delaware corporation, its general partner


By: 
Name: J. Scott
Title: VP

Address: c/o CarrAmerica Realty Corporation
300 West 6th Street, Suite 210
Austin, Texas 78759
Attention: Market Officer

Date signed: 4.8.03

TENANT:

PERFICIENT, INC.

By: 
Name: MARK MAULDIN
Title: CEO

Address: 1120 South Capital of Texas Highway,
Suite 220, Building III
Austin, Texas 78746

Date signed: Apr-07-2003

AMENDMENT TO LEASE

THIS AMENDMENT TO LEASE (this "Amendment") is made to be effective May 31, 2005 (the "Effective Date"), by and between PERFICIENT, INC. ("Tenant"), and CARRAMERICA REALTY, L.P., t/a The Setting ("Landlord") (Tenant and Landlord sometimes collectively referred to herein as the "Parties").

WITNESSETH:

WHEREAS, Landlord and Tenant entered into that certain Lease dated as of April 7, 2003 (the "Lease"), pertaining to the lease of certain premises located in Travis County, Texas, consisting of Suite 220 of that certain office building locally known as Building III of "The Setting," 1120 South Capital of Texas Highway, Austin, Texas 78750;

WHEREAS, the primary term of the Lease expires on May 30, 2005; and

WHEREAS, Tenant desires to extend the term of the Lease in accordance with the terms and provisions thereof and to make certain other modifications, and Landlord has agreed to such modifications in accordance with the provisions of this Amendment.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter made, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Extension of Lease. As of the Effective Date, the Term of the Lease is hereby extended to expire on May 31, 2006.
2. Base Rent. Landlord and Tenant hereby agree that, as of the Effective Date, the Base Rent applicable to the Leased Premises shall be as follows:

<u>Period</u>	<u>Monthly Rent</u>	<u>Annual Rent</u>
05/31/05-05/31/06	\$2,252.02	\$27,024.24

3. Renewal Option. Subject to paragraph 3.b below, Tenant may further extend the Term of this Lease for one (1) period of one (1) year. Such period is referred to herein as the "Renewal Term". The Renewal Term shall be upon the same terms contained in the Lease, excluding Landlord's work provisions in Section 3.A. of the Lease and the renewal rights herein set forth, and except for the payment of Base Rent during the Renewal Term; and any reference in the Lease to the "Term" of the Lease shall be deemed to include the Renewal Term and apply thereto, unless it is expressly provided otherwise. Tenant shall have no additional extension options. The foregoing right is in lieu and in substitution of the extension option set forth in Appendix F of the Lease, the terms and provisions of which are hereby deleted in their entirety.

a. The Base Rent during the Renewal Term shall be the greater of (i) the Base Rent applicable to the last day of the final Lease Year prior to the Renewal Term, or (ii) the

Market Rate (defined hereinafter) for such space for a term commencing on the first day of the Renewal Term. "Market Rate" shall mean the then prevailing market rate for a comparable term commencing on the first day of the Renewal Term for tenants of comparable size and creditworthiness for comparable space in the Building and other first class office buildings in the vicinity of the Building.

b. To exercise the option, Tenant must deliver a binding notice to Landlord not less than ninety (90) days prior to the expiration of the Term of this Lease. Thereafter, the Market Rate for the Renewal Term shall be calculated pursuant to paragraph 3.c below and Landlord shall inform Tenant of the Market Rate. Such calculations shall be final and shall not be recalculated at the actual commencement of such Renewal Term. If Tenant fails to timely give its notice of exercise, Tenant will be deemed to have waived its option to extend.

c. Market Rate shall be determined as follows:

(i) If Tenant provides Landlord with its binding notice of exercise pursuant to paragraph 3.b above, then, within fifteen (15) days thereafter, Landlord shall calculate and inform Tenant of the Market Rate. If Tenant rejects the Market Rate as calculated by Landlord, Tenant shall inform Landlord of its rejection within five (5) days after Tenant's receipt of Landlord's calculation, and Landlord and Tenant shall commence negotiations to agree upon the Market Rate. If Tenant fails to timely reject Landlord's calculation of the Market Rate it will be deemed to have accepted such calculation. If Landlord and Tenant are unable to reach agreement within ten (10) days after Landlord's receipt of Tenant's notice of rejection, then the Market Rate shall be determined in accordance with (ii) below.

(ii) If Landlord and Tenant are unable to reach agreement on the Market Rate within said 10-day period, then within five (5) days, Landlord and Tenant shall each simultaneously submit to the other in a sealed envelope its good faith estimate of the Market Rate. If the higher of such estimates is not more than one hundred five percent (105%) of the lower, then the Market Rate shall be the average of the two. Otherwise, the dispute shall be resolved by arbitration in accordance with (iii) and (iv) below.

(iii) Within five (5) days after the exchange of estimates, the parties shall select as an arbitrator an independent MAI appraiser with at least ten (10) years of experience in appraising office space in the metropolitan area in which the Project is located (a "Qualified Appraiser"). If the parties cannot agree on a Qualified Appraiser, then within a second period of five (5) days, each shall select a Qualified Appraiser and within five (5) days thereafter the two appointed Qualified Appraisers shall select a third Qualified Appraiser and the third Qualified Appraiser shall be the sole arbitrator. If one party shall fail to select a Qualified Appraiser within the second 5-day period, then the Qualified Appraiser chosen by the other party shall be the sole arbitrator.

(iv) Within fifteen (15) days after submission of the matter to the arbitrator, the arbitrator shall determine the Market Rate by choosing whichever of the estimates submitted by Landlord and Tenant the arbitrator judges to be more accurate.

The arbitrator shall notify Landlord and Tenant of its decision, which shall be final and binding. If the arbitrator believes that expert advice would materially assist him, the arbitrator may retain one or more qualified persons to provide expert advice. The fees of the arbitrator and the expenses of the arbitration proceeding, including the fees of any expert witnesses retained by the arbitrator, shall be paid by the party whose estimate is not selected. Each party shall pay the fees of its respective counsel and the fees of any witness called by that party.

d. Tenant's option to extend this Lease is subject to the conditions that: (i) on the date that Tenant delivers its binding notice exercising an option to extend, Tenant is not in default under this Lease, and (ii) Tenant shall not have assigned the Lease, or sublet any portion of the Premises under a sublease which is effective at any time during the final twelve (12) months of the initial Term.

4. Miscellaneous.

a. All terms and conditions of the Lease not expressly modified by this Amendment shall remain in full force and effect, and, in the event of any inconsistencies between this Amendment and the terms of the Lease, the terms set forth in this Amendment shall govern and control. Except as expressly amended hereby, the Lease shall remain in full force and effect as of the date thereof.

b. Captions used herein are for convenience only and are not to be utilized to ascribe any meaning to the contents thereof. Unless defined differently herein or the context clearly requires otherwise, all terms used in this Amendment shall have the meanings ascribed to them under the Lease.

c. This Amendment (i) shall be binding upon and shall inure to the benefit of each of the Parties and their respective successors, assigns, receivers and trustees; (ii) may be modified or amended only by a written agreement executed by each of the Parties; and (iii) shall be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the Parties hereby execute this Amendment to be effective as of the Effective Date.

TENANT:

PERFICIENT, INC.

By: 

Name: JOHN T. McDONALD

Title: CHAIRMAN

LANDLORD:

CARRAMERICA REALTY, L.P., t/a The Setting

By: CarrAmerica Realty GP Holdings, LLC., a
Delaware limited liability company, its
general partner

By: CarrAmerica Realty Operating
Partnership, LP, a Delaware limited
partnership, is sole member

By: CarrAmerica Realty
Corporation, a Maryland
corporation, its general
partner

By: 
Name: _____
Title: _____

SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE (this "Second Amendment") is made to be effective June 1, 2006 (the "Effective Date"), by and between PERFICIENT, INC. ("Tenant"), and CARRAMERICA REALTY, L.P., t/a The Setting ("Landlord") (Tenant and Landlord sometimes collectively referred to herein as the "Parties").

WITNESSETH:

WHEREAS, Landlord and Tenant entered into that certain Lease dated as of April 7, 2003 (the "Original Lease"), and that certain Amendment to Lease dated effective May 31, 2005 (the "First Amendment") (the Original Lease and the First Amendment being collectively referred to herein as, the "Lease"), pertaining to the lease of certain premises located in Travis County, Texas, consisting of approximately 2,701 rentable square feet in Suite 220 of that certain office building locally known as Building III of "The Setting," 1120 South Capital of Texas Highway, Austin, Texas 78750;

WHEREAS, the term of the Lease expires on May 31, 2006; and

WHEREAS, Tenant desires to extend the term of the Lease in accordance with the renewal option set forth thereof and to make certain other modifications, and Landlord has agreed to such modifications in accordance with the provisions of this Second Amendment.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements hereinafter made, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Extension of Lease. As of the Effective Date, the Term of the Lease is hereby extended to expire on May 31, 2008.
2. Base Rent. Landlord and Tenant hereby agree that, as of the Effective Date, the Base Rent applicable to the Leased Premises shall be as follows:

<u>Period</u>	<u>Monthly Rent</u>	<u>Annual Rent</u>
06/01/06-05/31/07	\$2,701.00	\$ 32,412.00 (\$12.00 psf)
06/01/07-05/31/08	\$2,813.54	\$ 33,762.50 (\$12.50 psf)

3. Operating Cost Share Rent. Tenant further acknowledges and agrees that it shall be liable for the payment of Operating Cost Share Rent and Additional Rent, as specified in the Lease.

4. Tenant Improvements. Except as provided for in Exhibit A attached hereto and subject to all of the applicable covenants, obligations, terms and conditions of the Lease (as modified hereby), Tenant acknowledges that it is currently occupying the Premises and has accepted the Premises in their current "AS-IS," "WHERE IS," "WITH ALL FAULTS" basis, and is satisfied with its condition.

5. Extension Option. Tenant hereby acknowledges and agrees that it is exercising its Extension Option as set forth in the First Amendment and shall have no further options or extensions with regard to the Lease.

6. Miscellaneous.

a. All terms and conditions of the Lease not expressly modified by this Second Amendment shall remain in full force and effect, and, in the event of any inconsistencies between this Second Amendment and the terms of the Lease, the terms set forth in this Second Amendment shall govern and control. Except as expressly amended hereby, the Lease shall remain in full force and effect as of the date thereof.

b. Captions used herein are for convenience only and are not to be utilized to ascribe any meaning to the contents thereof. Unless defined differently herein or the context clearly requires otherwise, all terms used in this Second Amendment shall have the meanings ascribed to them under the Lease.

c. This Second Amendment (i) shall be binding upon and shall inure to the benefit of each of the Parties and their respective successors, assigns, receivers and trustees; (ii) may be modified or amended only by a written agreement executed by each of the Parties; and (iii) shall be governed by and construed in accordance with the laws of the State of Texas.

IN WITNESS WHEREOF, the Parties hereby execute this Second Amendment to be effective as of the Effective Date.

(SIGNATURE PAGE FOLLOWS)

TENANT:

PERFICIENT, INC.

By: /s/ Michael D. Hill

Name: Michael D. Hill

Title: CFO

LANDLORD:

CARRAMERICA REALTY, L.P., t/a The Setting

By: CarrAmerica Realty GP Holdings, LLC., a
Delaware limited liability company, its
general partner

By: CarrAmerica Realty Operating
Partnership, LP, a Delaware limited
partnership, is sole member

By: CarrAmerica Realty
Corporation, a Maryland
corporation, its general
partner

By: _____
Name: _____
Title: _____

**LEASE AGREEMENT BETWEEN
CORNERSTONE OPPORTUNITY VENTURES, LLC
LANDLORD
AND
PERFICIENT, INC.
TENANT**

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EXHIBITS TO LEASE

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EXHIBIT D: CONSTRUCTION PROVISIONS

EXHIBIT D-1: TENANT FINISH PLAN

EXHIBIT E: FORM OF CERTIFICATE

EXHIBIT F: RULES AND REGULATIONS

EXHIBIT G: SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

LEASE AGREEMENT

THIS AGREEMENT (the "Lease") is made this 21st day of December, 2005, by and between Cornerstone Opportunity Ventures, LLC, a Delaware Limited Liability Company (hereinafter called "Landlord"), and Perficient, Inc., a Delaware corporation (hereinafter called "Tenant").

WITNESSETH:

1. **DEMISED PREMISES**

1.1 For and in consideration of the covenants and agreements hereinafter set forth and the rent hereinafter specifically reserved, the Landlord does hereby lease unto the Tenant, and the Tenant does hereby lease from the Landlord, approximately four thousand nine hundred thirty-six (4,936) rentable square feet of space on the first floor of the CityPlace One (the "Building"), which space is designated as Suite 180, outlined on Exhibit A attached hereto and made a part hereof (the "Demised Premises") and its share of common area at the Building. The site plan of the Building is shown on Exhibit B and the Building Specifications are described on Exhibit C, both being attached hereto and made a part hereof.

1.2 Landlord shall construct the tenant finish requirements in accordance with the construction provisions and tenant finish plans set forth on Exhibit D, attached hereto and made a part hereof, (the "Tenant Finish"). Within ten (10) business days of substantial completion of the Tenant Finish, Landlord and Tenant shall cooperate to execute a mutually agreeable "punch list" identifying any incomplete and unacceptable items in the Tenant Finish. No later than thirty (30) days after the parties execution of said "punch list", Landlord shall complete all items identified on said "punch list"; provided that Landlord shall have such additional time as is reasonably necessary to complete any items, so long as Landlord uses commercially reasonable efforts to promptly complete such item. Upon completion of all items identified on the "punch list", Tenant shall execute a form acknowledging completion of the Tenant Finish.

2. **TERM**

This Lease shall continue in force for a term of five (5) years and one (1) months from the Lease Commencement Date, which shall be the later of (a) February 1, 2006, or (b) such later date as Tenant receives notice from Landlord that the Tenant Finish work is substantially completed (excluding completion of minor items identified on the "punch list") and Landlord has received a temporary occupancy permit for the Demised Premises. Notwithstanding the foregoing, should the Lease Commencement Date fall on a date other than the first day of a month, Tenant shall occupy the Demised Premises on the "Occupancy Date" and the Lease Commencement Date shall be deemed to be the first day of the following month and Tenant shall occupy the Demised Premises on the terms and conditions contained herein, except that the rent for the partial first month of occupancy shall be prorated based on the actual number of days of Tenant's occupancy. The Lease Commencement Date (and the Occupancy Date if different) shall be specified in the Certificate described in Paragraph 1.3 above.

Notwithstanding anything herein to the contrary, upon October 31, 2009 only, and upon not less than nine (9) months prior written notice to Landlord, Tenant shall have the right to terminate the Lease without penalty, provided Tenant pays Landlord at the time of termination the following: (i) all unamortized Tenant Improvement expenses (which shall be amortized over the five (5) year term of the Lease at a rate of nine percent (9%) per annum); and (ii) all unamortized brokerage commissions paid by Landlord (which shall be amortized over the five (5) year term of the Lease at a rate of nine percent (9%) per annum.

3. **RENT AND ADDITIONAL RENT**

3.1 **Base Annual Rent.** Commencing on the Lease Commencement Date Tenant shall pay to Landlord the Base Annual Rent as stated below:

Period	Monthly Rent	Monthly Rent
Month 1	\$0.00	\$0.00
Months 2-13	\$22.75	\$9,357.83
Months 14-25	\$23.00	\$9,460.67
Months 26-37	\$23.50	\$9,666.33
Months 38-49	\$24.00	\$9,872.00
Months 50-61	\$24.50	\$10,077.67

Said Base Annual Rent shall be paid in twelve equal monthly installments. The initial Base Annual Rent shall be adjusted upwards or downwards after final space measurements have been computed by Landlord's architect in accordance with the rentable calculation for office space, said adjustments to be made at the rates per rentable square foot set forth in the table above. Tenant shall pay one full monthly installment of Base Annual Rent upon execution of this Lease and Landlord shall credit it against Tenant's rent obligations coming due on and after the Lease Commencement Date, and provided the Lease Commencement Date is 2/1/06, then the next monthly installment of Base Annual Rent shall be due on 4/1/06; otherwise the next monthly installment of Base Annual Rent shall be due on the first day of the second month following the Lease Commencement Date. Notwithstanding anything herein to the contrary, the first month following the Lease Commencement Date shall be free of the obligation to pay Base Annual Rent.

3.2 **Operating Expenses.**

(a) In addition to the Base Annual Rent, Tenant will pay, as additional rent, its proportionate share of Landlord's costs of operating the Building over the expenses incurred during the 2006 calendar year (the "Base Year"). These costs shall consist of (a) real estate taxes and (b) all other costs defined in Paragraph 3.2 (c) below, which are actually incurred by the Landlord, and which are projected in Landlord's reasonable estimation to reflect the greater of (a) the actual occupancy of the Building or (b) ninety-five percent (95%) occupancy of the Building. Tenant's proportionate share, subject to adjustment pursuant to Paragraph 1.2 above, shall be one and 72/100 percent (1.72%). Tenant's proportionate share is calculated by dividing the total rentable square footage of the Demised Premises (approximately 4,936 rentable square feet) by the building's total rentable square footage, which is 287,271 square feet.

(b) Landlord shall send Tenant a statement showing the fiscal year operating expenses as soon as is practicable after the end of each calendar year; however, Landlord's failure to provide such operating expense statement as soon as is practicable after the end of each calendar year shall in no way excuse Tenant from its obligation to pay its pro rata share of operating expenses or constitute a waiver of Landlord's right to bill and collect such pro rata share of operating expenses from Tenant in accordance with this paragraph 3.2(b).

(c) The costs of operating the Building (the "Operating Expenses") shall include the following:

(i) electricity, water, sewer and other utility charges (including surcharges) of every type and nature, but excluding electricity charges billed directly to Tenant by Landlord pursuant to Paragraph 16.3 hereof;

(ii) premiums and other charges incurred by Landlord with respect to all insurance relating to the Building and the operation and maintenance thereof, including, without limitation, all risk of physical damage or fire and extended coverage insurance, public liability insurance, elevator insurance, workman's compensation insurance, boiler and machinery insurance, sprinkler leakage insurance, rent insurance, use and occupancy insurance, and health, accident and group life insurance for employees;

(iii) management office costs directly attributable to management and operation of the Building and management fees and personnel costs of the Building, including, but not limited to, salaries, wages, fringe benefits and other direct and indirect costs of engineers, superintendents, watchmen, porters and any other Building personnel;

(iv) costs of service and maintenance contracts, including, but not limited to, chillers, boilers, controls, elevators, mail room, windows, security services, and management fees;

(v) all costs, charges, and expenses, incurred by Landlord in connection with any change of any company providing electricity service, including, without limitation, maintenance, repair, installation, and service costs associated herewith;

(vi) all other maintenance and repair expenses and supplies which are deducted by Landlord in computing its Federal income tax liability;

(vii) amortization and/or depreciation for capital expenditures incurred by Landlord in connection with additions, replacements or improvements reasonably expected by Landlord to reduce Operating Expenses (and only to the extent that such additions, replacements or improvements do reduce Operating Expenses), or which are incurred in connection with compliance with governmental orders;

(viii) the costs of any additional services not provided to the Building at the Lease Commencement Date but thereafter provided by Landlord in the prudent management of the Building;

(ix) real estate taxes (or taxes which replace or are in lieu of such real estate taxes);

(x) the cost of janitorial service (allocable to the actual space in the Building being serviced);

(xi) any Business, Professional and Occupational License tax payable by Landlord with respect to the Building;

(xii) auditing and accounting fees including accounting fees incurred in connection with the preparation and certification of any and all statements required under this Lease;

(xiii) all miscellaneous taxes (including, without limitation, all sales and excise taxes on the expenditures enumerated in this Paragraph) applicable to the Building and any taxes imposed on personal property in the Building owned by Landlord;

(xiv) the cost of licenses, permits and similar fees and charges; and any other costs and expenses, including reasonable attorney's fees, incurred by Landlord in maintaining or operating the Building.

Notwithstanding anything to the contrary, Operating Expenses shall not include the following:

(i) Any ground lease rental;

(ii) Costs incurred by Landlord for the repair of damage to the Building to the extent that Landlord is reimbursed by insurance or condemnation proceeds or by tenants, warrantors or other third persons;

(iii) Depreciation, amortization and interest payments, except as specifically permitted elsewhere in the Lease, and except upon materials, tools, supplies and vendor-type equipment purchased by Landlord to enable Landlord to supply services Landlord might otherwise contract for with a third party, where such depreciation, amortization and interest payments would otherwise have been included in the charge for such third party's services, all as determined in accordance with generally accepted accounting principles, consistently applied, and when depreciation or amortization is permitted or required, the item shall be amortized over its reasonably anticipated useful life;

(iv) Marketing costs including leasing commissions, attorney's fees in connection with the negotiation and preparation of letters, deal memos, letters of intent, leases, subleases and/or assignments, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with present or prospective tenants or other occupants of the Building;

(v) Except as permitted elsewhere in the Lease Agreement, costs of a capital nature, including without limitation, capital improvements, capital replacements, capital repairs, capital equipment and capital tools, all as determined in accordance with generally accepted accounting principles consistently applied or otherwise ("Capital Items");

(vi) Interest, principal, points and fees on debt or amortization on any mortgage, deed of trust or other debt encumbering the Building or the Project;

(vii) Costs, including permit, license and inspection costs, incurred with respect to the installation of Tenant or other occupants' improvements made for tenants or other occupants in the Building, or incurred in renovating or otherwise improving, decorating painting or redecorating space used exclusively by tenants or other occupants of the Building, including space planning and interior design costs and fees;

(viii) Attorney's fees and other costs and expenses incurred in connection with negotiations or disputes with present or prospective tenants or other occupants of the Building or attorney's fees and other costs and expenses in, settlement, judgments incurred in connection with potential or actual claims pertaining to Landlord, the Building or the Project; provided, however, that Operating Expenses shall include those attorneys' fees and other costs and expenses incurred in connection with disputes or claims relating to items of Operating Expenses, enforcement of rules and regulations of the Building, and such other matters relating to the maintenance of standards required of Landlord under the Lease Agreement may be included in Operating Expenses;

(ix) Expenses in connection with services or other benefits which are not offered to Tenant, or for which Tenant is charged for directly but which are provided to another tenant or occupant of the Building;

(x) Costs incurred by Landlord due to the violation by Landlord of the terms and conditions of any lease of space in the Building;

(xi) Overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services provided to the Building to the extent the same exceeds the costs that would generally be charged for such goods and/or services if rendered on a competitive basis, based upon a standard of comparable buildings by unaffiliated third parties capable of providing such services; provided, however, that nothing in this subparagraph (xi) shall restrict Landlord's right to employ an affiliate of Landlord, including but not limited to The Koman Group, L.L.C., to manage the Building, to pay such affiliate administrative, management fee and other compensation and to include such aggregate amount in Operating Expenses;

(xii) Costs of Landlord's general corporate overhead, except to the extent that such overhead is directly attributable to the management, maintenance and repair of the Building;

(xiii) All items and services for which Tenant or any other tenant in the Building reimburses Landlord (other than through operating expense pass-through provisions);

(xiv) Electric power costs for which any tenant directly contracts with the local public service company;

(xv) Costs arising from Landlord's charitable or political contributions;

(xvi) Rentals for items (except when needed in connection with normal repairs and maintenance of permanent systems) which if purchased, rather than rented, would constitute a capital improvement which is specifically excluded above, excluding, however, equipment not affixed to the Building which is used in providing janitorial or similar services;

(xvii) Rentals and other related expenses incurred in leasing HVAC systems, elevators or other equipment ordinarily considered to be Capital Items, except for (1) expenses in connection with making repairs on or keeping project systems in operation while repairs are being made and (2) costs of equipment not affixed to the Building which is used in providing janitorial or similar services;

(xviii) Advertising and promotional expenditures;

(xix) Costs incurred in connection with upgrading the common areas of the Building to comply with handicap (including ADA), life, fire and safety codes as such codes are interpreted to apply to the Building by the responsible public officials prior to the Lease Commencement Date;

(xx) Tax penalties incurred as a result of Landlord's negligence, inability or unwillingness to make payments and/or to file any income tax or informational returns when due;

(xxi) Notwithstanding any contrary provision of the Lease Agreement, including, without limitation, any provision relating to capital expenditures, any and all costs arising from the presence of hazardous materials or substances in or about the Building including, without limitation, hazardous substances in the ground water or soil;

(xxii) Costs associated with the operation of the business of the entity which constitutes Landlord as the same are distinguished from the costs of operation of the Building, including entity accounting and legal matters, costs of defending any lawsuits with any deed of trust holder (except as the actions of Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Building, or costs of any disputes between Landlord and its employees (if any) not engaged in Building operation, disputes of Landlord with Building management;

(xxiii) Costs of signs in or on the Building (other than building directory signs) identifying the owner of the Building or other tenant's signs;

(xxiv) Except as expressly provided to the contrary in this Lease Agreement, any other expense that, under generally accepted building operation, consistently applied, would not be considered a normal maintenance or operating expense.

(d) Beginning January 1, 2007, Tenant shall make monthly payments to Landlord on account of estimated increases in Operating Expenses for each calendar year. Landlord shall submit to Tenant an estimate as soon as practicable after the end of each calendar year. Following its receipt of each such estimate, Tenant shall pay to Landlord, monthly, on the first day of each month through and including the month in which Tenant receives Landlord's next such estimate, an amount equal to one-twelfth (1/12th) of Tenant's proportionate share of estimated increases in Operating Expenses. Each year Landlord shall also submit a statement of the Operating Expenses actually incurred during the immediately preceding calendar year. If Tenant's total payments on account of estimated increases in Operating Expenses made through December of the immediately preceding calendar year exceed the amount of the increase actually due for the calendar year, Landlord shall at its option, either refund the difference directly to the Tenant or credit Tenant's rent and/or additional rent obligations coming due thereafter. If, on the other hand, such payments were less than the amount of the increase actually due, Tenant shall pay the difference to Landlord with its next rent due. Tenant's liability for its proportionate share of increases in Operating Expenses for the last calendar year of the term of this Lease shall survive the expiration of the Lease. Similarly, Landlord's obligation to refund to Tenant the excess, if any, of the amount of Tenant's payment on account of estimated increases for such last calendar year over Tenant's actual liability therefor shall survive the expiration of the term of this Lease. Landlord may at any time or from time to time furnish to Tenant a revised estimate for any calendar year and in such case Tenant's payments on account of estimated increases for such calendar year shall be adjusted accordingly. Within thirty (30) days after receipt of Landlord's statement, Tenant or its authorized employee shall have the right to inspect the books of Landlord during the business hours of Landlord at Landlord's office in the Building for the purpose of verifying information in such statement. Unless Tenant asserts specific error(s) to Landlord in writing within forty-five (45) days after delivery of such statement, the statement shall be deemed to be correct.

(e) No decrease in Taxes and/or Operating Expenses shall reduce Tenant's rent below the annual base rent set forth in Paragraph 3.1 hereinabove.

(f) The term "Controllable Operating Expenses" shall mean all Operating Expenses other than real estate taxes, utility charges and insurance charges that are includable as Operating Expenses under Paragraph 3.2(c). Notwithstanding anything to the contrary contained herein, for purposes of calculating Tenant's proportionate share of Operating Expenses for the 2007 calendar year and each calendar year thereafter during the term of this Lease (including option periods), the Controllable Operating Expenses includable in Operating Expenses for each such calendar year shall be the lesser of (x) the actual Controllable Operating Expenses for each such calendar year or (y) one hundred five percent (105%) of the Controllable Operating Expenses includable in the calculation of Tenant's proportionate share of Operating Expenses for the immediately preceding calendar year; provided that if the Controllable Operating Expenses attributable to a particular calendar year (after the 2006 calendar year) do not increase by five percent (5%) over the Controllable Operating Expenses attributable to the immediately preceding calendar year, then any shortfall in the escalation of Controllable Operating Expenses below five percent (5%) between such calendar years shall be added to the one hundred five percent (105%) cap on Controllable Operating Expenses in the immediately succeeding calendar Year.

3.3 **Rent Payments.** Payments of rent shall be paid in advance on or before the fifth (5th) day of each and every month during the term of this Lease, with appropriate proration for the first and last months. Rent shall be paid by either check or electronic funds transfer (at Tenant's election), per instructions to be provided by Landlord to Tenant, payable to Landlord or to such other person, firm or corporation as Landlord may designate in writing.

3.4 **Delinquent Rent Payments.** Any installment of rent, or any additional rent, which is not received by Landlord within five (5) days after the same becomes due and payable, and receipt of written notice of such nonpayment, shall obligate Tenant to pay, as additional rent, a late fee equal to the amount owed with a late payment fee of five percent (5%) of the outstanding balance, plus for each and every month or part thereof that such rent remains unpaid, an interest cost of prime plus eight percent (8%) but in no event higher than the interest rate permitted by law, said additional rent to be payable with the next monthly installment of rent. In addition, if the Tenant defaults in the making of any payment or the doing of any act herein required to be made or done by Tenant, then the Landlord may, but shall not be required to, make such payment or do such act, and the amount of the expense thereof, if made or done by Landlord, shall be paid by Tenant to Landlord together with a late payment fee of five (5%) of the outstanding balance, plus for each and every month or part thereof that such amount remains unpaid, an interest cost of prime plus eight percent (8%) but in no event higher than the interest rate permitted by law, which amount shall constitute additional rent hereunder due and payable with the next monthly installment of rent. The provisions of this Paragraph shall not be deemed to affect Landlord's right to pursue any of its remedies under Article 20 hereof.

4. USE OF DEMISED PREMISES

4.1 The Tenant shall use and occupy the Demised Premises for general office purposes and for no other purpose whatsoever. The Tenant shall not use or permit the Demised Premises or any part thereof to be used for any disorderly, unlawful, or hazardous purpose and will not manufacture any commodity therein. Tenant shall comply with all present and future laws, ordinances (including zoning ordinances and land use requirements), regulations and orders of all governmental and/or quasi-governmental authorities having jurisdiction over the Demised Premises.

4.2 Tenant shall pay any business, rent or other taxes that are now or hereafter levied upon Tenant's use or occupancy of the Demised Premises, the conduct of Tenant's use or occupancy of the Demised Premises, or Tenant's business in the Demised Premises, or Tenant's equipment or other personal property, other than taxes relating to Landlord's income. In the event that any such taxes are enacted, changed or altered so that any of such taxes are levied against Landlord, or the mode of collection of such taxes is changed so that Landlord is responsible for collection or payment of such taxes, Tenant shall pay any and all such taxes to Landlord upon written demand from Landlord.

4.3 The Tenant will not do, or permit anything to be done in the Demised Premises or the Building of which they form a part or bring or keep anything therein which shall, in any way, increase the rate of fire or other insurance on the Building, or on the property kept therein, or obstruct, or interfere with the rights of other tenants, or in any way injure them, or those having business with them or conflict with them, or conflict with the fire laws or regulations, or with any statutes, rules or regulations enacted or established by the City of Creve Coeur or other governmental entity.

5. MAINTENANCE AND REPAIR

5.1 Tenant will keep the Demised Premises and the fixtures and equipment therein (other than major structural elements of the Building, which are the responsibility of Landlord, as provided in Section 5.3 below) in a clean, safe and sanitary condition, will take reasonably good care thereof, will suffer no waste or injury thereto, and will, at the expiration or other termination of the term of this Lease, surrender the same, broom clean, in the same order and condition in which they are on the commencement of the term of this Lease, except for ordinary wear and tear and damage by the elements, fire and other casualty not due to the negligence of the Tenant.

5.2 If Tenant shall fail to make any repairs or to perform any maintenance which it is obligated to make or perform under this Lease within ten (10) days after written notice from Landlord to do so, or in the event of any emergency, Landlord may, with prior written notice to Tenant, make or perform the same for the account of Tenant, without liability to Tenant for any loss or damage that may accrue to Tenant's fixtures or other property or to Tenant's business by reason thereof, so long as said damage or loss is not due to Landlord's negligence and Tenant shall pay, as additional rent, within thirty (30) days after Landlord shall have billed Tenant therefore, Landlord's reasonable and actual out-of-pocket cost for making such repairs and/or performing such maintenance (such cost may include a reasonable amount for Landlord's overhead, not to exceed ten percent 10% of the hard costs of such repair(s) or maintenance). Nothing herein contained shall imply any duty on the part of Landlord to do any such work which under any provision of this Lease Tenant may be required to do, nor shall it constitute a waiver of Tenant's default in failing to do the same.

5.3 Landlord shall make all necessary repairs to the structure of the Building and the mechanical, electrical, plumbing, heating and air conditioning systems therein, except with respect to any items installed or constructed by Tenant and except where the repair has been made necessary by misuse or neglect by Tenant or Tenant's agents, servants, visitors or licensees. This obligation to repair does not impose upon Landlord an obligation to make repairs other than during Normal Building Hours except in emergency situations. Landlord will use its best efforts to make such repairs in a timely fashion. If Landlord on its part fails to make any repair after a ten (10) day written notice from Tenant, Tenant may perform the repair and submit an invoice to Landlord. Tenant is to notify Landlord in writing of the repair and provide Landlord with a copy of the bid to perform such repair before it releases any work, except in the case of an emergency, in which case Tenant shall endeavor to notify the Landlord as soon as practical.

5.4 Unless Landlord shall otherwise request, in writing, no less than fifteen (15) days prior to the Lease expiration date, within fifteen (15) days of the expiration or termination of this Lease, Tenant, at its sole cost and expense, shall remove all cabling and wiring, (including but not limited to telecommunication and data cabling) installed by or for Tenant from the Demised Premises. The provisions of this paragraph shall survive the expiration and/or termination of this Lease.

6. UTILITY DEREGULATION

6.1 Landlord hereby advises Tenant that presently Ameren UE (the "Electric Service Provider") is the utility company selected by Landlord to provide electric service for the Building. Notwithstanding the foregoing, if permitted by law, Landlord shall have the right at any time and from time to time during the Lease Term to either contract for service from a different company or companies providing electricity service (each such company shall hereinafter be referred to as an "Alternate Service Provider") or continue for service from the Electric Service Provider.

6.2 Tenant shall cooperate with Landlord, the Electric Service Provider, and any Alternate Service Provider at all times and, as reasonably necessary, shall allow Landlord, Electric Service Provider and any Alternate Service Provider reasonable access to the Building's electric lines, feeders, risers, wiring, and any other machinery within the Demised Premises.

6.3 Unless attributable to Landlord's negligence, Landlord shall in no way be liable or responsible for any loss, damage, or expense that Tenant may sustain or incur by reason of any change, failure, interference, disruption, or defect in the supply or character of the electric energy furnished to the Demised Premises, or if the quantity or character of the electric energy supplied by the Electric Service Provider or any Alternate Service Provider is no longer available or suitable for Tenant's requirements, and no such change, failure, defect, unavailability, or unsuitability shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of rent, or relieve Tenant from any of its obligations under the Lease.

7. ALTERATIONS

7.1 Tenant will not make or permit anyone to make any alterations, additions or improvements, (hereinafter referred to as "Alterations"), in or to the Demised Premises or the Building, other than cosmetic alterations which will not affect building systems or structure without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed. As a condition precedent to such written consent of Landlord, Tenant agrees to obtain and deliver to Landlord upon completion, written, unconditional waivers of mechanics' and material men's liens against the Building and the land upon which it is situated from all proposed contractors, sub-contractors, laborers and material suppliers for all work, labor and services that were performed and materials furnished in connection with Alterations. If, notwithstanding the foregoing, any mechanic's lien is filed against the Demised Premises, the Building, and/or the land on which the Building is located, for work or materials done for, or furnished to, Tenant (other than for work or materials supplied by Landlord), such mechanic's lien shall be discharged by Tenant the earlier of (a) the date a responsive pleading is due in any such lien action, or (b) ten (10) days thereafter, at Tenant's sole cost and expense, by the payment thereof or by the filing of any bond required by law. If Tenant shall fail to discharge any such mechanic's lien, Landlord may, at its option, discharge the same and treat the cost thereof as additional rent hereunder, payable with the monthly installment of rent next becoming due; and such discharge by Landlord shall not be deemed to waive the default of Tenant in not discharging the same. Tenant will indemnify and hold Landlord harmless from and against any and all expenses (including reasonable attorney's fees), liens, claims or damages to any person or property which may or might arise by reason of the making by Tenant of any Alterations. Landlord will in turn indemnify and hold Tenant harmless from and against any and all expenses (including reasonable attorney's fees), liens, claims or damages to any person or property which may or might arise by reason of the making of Landlord of any alterations.

7.2 Alterations may be made only at Tenant's expense, by contractors or subcontractors approved by Landlord, which approval shall not be unreasonably withheld, and only after Tenant has obtained all necessary permits from governmental authorities having jurisdiction and has furnished copies of the permits to Landlord. Landlord shall have the right to have the making of any Alterations supervised by its architects, contractors or workmen. All Alterations that affect or in any way relate to the mechanical, electrical, plumbing, heating, air conditioning, or structural systems of the Building shall be done only by Landlord or Landlord's contractor or agent at Tenant's expense. Landlord will use its best effort to perform the work at a reasonable cost.

7.3 If any Alterations are made without the prior written consent of Landlord, Landlord may correct or remove the same, and Tenant shall be liable for all reasonable expenses so incurred by Landlord. All Alterations in or to the Demised Premises or the Building made by either party shall immediately become the property of Landlord and shall remain upon and be surrendered with the Demised Premises as a part thereof at the end of the term hereof; provided however, Tenant shall have the right to remove, prior to the expiration of the term of this lease, all movable furniture, furnishings or equipment installed in the Demised Premises at the expense of Tenant, and if such property of Tenant is not removed by Tenant prior to the expiration or termination of this Lease, the same shall, at Landlord's option, become the property of Landlord and shall be surrendered with the Demised Premises as a part thereof. Should Landlord elect that Alterations installed by Tenant be removed upon the expiration or termination of this Lease, it shall so advise Tenant at the time of its providing consent to such Alterations, Tenant shall remove the same at Tenant's sole cost and expense, and if Tenant fails to remove the same, Landlord may remove the same at Tenant's expense and Tenant shall reimburse Landlord for the cost of such removal together with any and all damages which Landlord may sustain by reason of such default by Tenant.

8. ASSIGNMENT AND SUBLETTING

8.1 Tenant may not assign, transfer, mortgage or encumber this Lease, nor shall any assignment or transfer of this Lease be effectuated by operation of law or otherwise, without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed, other than Tenant may automatically and without Landlord's consent (but providing written notice to Landlord thereof) assign the Lease to another controlling, controlled by or under common control with Tenant. The withdrawal or change, whether voluntary, involuntary or by operation of law, of persons or entities owning a controlling interest in Tenant, or the sale of Tenant's business, shall be deemed a voluntary assignment of this Lease and subject to the provisions of this Paragraph. Tenant's failure to comply with the foregoing sentence shall be deemed to be a material breach of this Lease by Tenant.

8.2 Tenant shall not sublease the Demised Premises or any part thereof or transfer possession or occupancy thereof to any person, firm or corporation without the prior written consent of Landlord, which consent shall not be unreasonably withheld or delayed.

8.3 In the event Tenant subleases or assigns all or part of the Demised Premises at a rental per square foot that is higher than the rental being paid by Tenant hereunder or in exchange for Tenant's receipt of any bonus or lump sum payment, Landlord shall be entitled to receive and Tenant shall promptly remit fifty percent (50%) of any excess rental, bonus and/or lump sum payment which may inure to Tenant's benefit as a result of any such assignment or subletting regardless of Landlord's consent thereto. Landlord will receive the excess rental, if any, within ten (10) days of Tenant's receipt of same.

8.4 In the event Tenant desires to sublease all or any part of the Demised Premises, Tenant shall give written notice thereof to Landlord. Landlord shall have the right, within thirty (30) days after receipt of written notice from Tenant of Tenant's desire to sublease all or part of the Demised Premises, to retake such portion to be subleased from Tenant and to terminate this Lease with respect to any such space so taken.

8.5 Any sublease or assignment shall be subject to the following conditions:

- (a) Tenant's successor shall be acceptable as a first class user of office space in Landlord's reasonable opinion.
- (b) At the time of making such assignment or sublease, there is no default under any of the agreements, terms, covenants and conditions on the part of the Tenant to be performed under this Lease.
- (c) Such assignment or sublease shall be in writing, shall certify the amount of rental, bonus and/or lump sum payment paid or to be paid to Tenant, shall contain an agreement on the part of the assignee or subtenant to abide by all of the terms and provisions of this Lease, except for the payment of rent and additional rent, and shall be duly executed and acknowledged by Tenant and Tenant's assignee or subtenant. Landlord's consent to any assignment or sublet shall not obviate the requirement of Landlord's consent to future assignments and/or sublets on the part of Tenant or any assignee or sublessee of Tenant. A copy of the sublease must be supplied to the Landlord within thirty (30) days after full and final execution.

(d) Such assignment or sublease shall expressly prohibit the assignee or subtenant from removing any of the Landlord's personal property from the Demised Premises without the Landlord's express written consent.

(e) No assignment or sublease shall obligate Landlord to make any Alterations (as that term is defined in Paragraph 8 above) nor to do any finishing or remodeling work in or to all or any part of the Demised Premises, nor shall any such assignment or sublease result in a decrease of any amounts payable to Landlord pursuant to the terms of this Lease.

(f) No assignment or sublease shall release or discharge, in whole or in part, Tenant's liability for the full performance of the agreements, terms, covenants and conditions contained in this Lease.

(g) If all or any part of the Demised Premises shall be subleased or occupied by any person or entity other than the Tenant, the Landlord may, after default by the Tenant, collect rent from any such subtenant(s) or occupant(s), and apply the amount collected to the rent reserved herein, and Tenant hereby assigns to Landlord the rent due from any subtenant or assignee of Tenant and hereby authorizes each such subtenant or assignee to pay said rent directly to Landlord but no such collection shall be deemed a waiver of any agreement, term, covenant or condition hereof nor the acceptance by the Landlord of any subtenant or occupant as Tenant.

(h) Wherever notice, demand, request, or any other communication of any nature is required to be given by the Landlord or by any mortgagee to the Tenant, no such notice, demand, request, or communication shall, in any event, be required to be given to any such assignee or subtenant, and any notice, demand, request or communication shall be given only to the Tenant herein.

(i) Any assignment or subletting permitted hereunder shall be for the initial term only, and shall not include any option or renewal rights.

8.6 If Landlord withholds approval to the proposed subletting or assignment, this Lease shall remain in full force and effect. In the event Landlord does not exercise any of its rights specified in this Paragraph 8, or does not respond to Tenant's request for Landlord's consent to an assignment or sublease, within ten (10) days after Tenant's request therefore, Landlord shall be deemed to have withheld approval of the sublease or assignment. If Tenant thereafter completes a sublease or assignment with a third party, such sublease or assignment shall be null and void.

9. INSTALLATIONS AFFECTING BUILDING AND BUILDING SYSTEMS

9.1 Landlord shall have the right to prescribe the weight and method of installation and position of safes, heavy fixtures, shelving, files, library stacks, equipment or machinery and Tenant will not install any such items which would place a load upon any floor exceeding the floor load per square foot which such floor was designed to carry. The live load for the building is one hundred pounds per square foot, with allowable reductions per BOCA. All damage done to the Building or any part thereof by taking in or removing a safe or any other article of Tenant's office equipment, or due to its being in the Demised Premises, shall be repaired at the reasonable expense of the Tenant. No freight, furniture, or other bulky matter of any description will be received into the Building or carried in the elevators, except as approved by the Landlord. All moving of furniture, material, and equipment shall be subject to the supervision of the Landlord, who shall, however, not be responsible for any damage to or charges for moving the same. Tenant agrees to promptly remove from the public area adjacent to the Building and from any common area within the Building any of Tenant's merchandise or property there delivered or deposited.

9.2 Except as may be specifically permitted by the terms of this Lease, Tenant shall not install or use any equipment of any kind or nature whatsoever which will or may necessitate any changes, replacements or additions to or require the use of the water, plumbing, heating, air-conditioning, or electrical system of the Demised Premises without the prior written consent of the Landlord, which consent shall not be unreasonably withheld or delayed. In addition, only Landlord or Landlord's contractor or agent at Tenant's reasonable expense shall do all of the work described in the foregoing sentence. Landlord will use its best efforts to secure a competitive price for the work to be performed. Landlord's consent shall not be unreasonably withheld or delayed, but may be conditioned upon the payment by the Tenant of additional rent as compensation for such excess consumption of utilities and the payment for other alterations as may be required for such equipment, as and if established by appropriate engineers.

10. **ACCESS**

Tenant agrees to allow Landlord, its agents or employees to enter the Demised Premises at all reasonable times and upon 24 hour prior written notice (except in case of emergency, in which event Landlord may enter the Demised Premises without notice) to examine, inspect or protect the same or to prevent damage or injury to the same; to make such alterations and repairs as the Landlord may deem necessary; or to exhibit the same to prospective tenants during the last twelve (12) months of the term.

Landlord will provide Tenant with two (2) access card per one thousand (1,000) rentable square feet of space leased by Tenant at no charge. Each additional or replacement access card requested by Tenant shall be at a charge to Tenant of \$15.00 per card.

11. **COVENANTS OF LANDLORD**

11.1 Landlord covenants that it has the right to make this Lease for the term aforesaid, and that if Tenant shall pay all rent when due and punctually perform all of the covenants, terms, conditions and agreements of this Lease to be performed by Tenant, Tenant shall, during the term hereby created, freely, peaceably and quietly occupy and enjoy the full possession of the Demised Premises without molestation or hindrance by Landlord or any party claiming through or under Landlord, subject, however, to the provisions of this Lease, including but not limited to the Rules and Regulations and the provisions of Paragraph 11.2 below.

11.2 Landlord hereby reserves to itself and its successors and assigns the following rights (all of which are hereby consented to by Tenant): (1) to change the street address and/or name of the Building and/or the arrangement and/or location of entrances passageways, atria, doors doorways, corridors, elevators, stairs, toilets, or other public parts of the Building; (2) to erect, use and maintain pipes and conduits in and through the Demised Premises; (3) to grant to anyone the exclusive right to conduct any particular business or undertaking in the Building not inconsistent with Tenant's permitted use of the Demised Premises; and (4) the exclusive right to use and/or lease the roof areas, and the sidewalks and other exterior areas; provided such acts do not impair Tenant's ability to conduct business in the normal course. Landlord may exercise any or all of the foregoing rights without being deemed to be guilty of an eviction, actual or constructive, or a disturbance or interruption of the business of Tenant or of Tenant's use or occupancy of the Demised Premises.

12. **RULES AND REGULATIONS**

Tenant, its agents, employees and invitees shall abide by and observe the rules and regulations attached hereto as Exhibit F . Tenant, its agents, employees and invitees shall abide by and observe such other reasonable rules or reasonable regulations which will be enforced in a uniform and non-discriminating manner by Landlord as may be promulgated from time to time by Landlord for the operation and maintenance of the Building provided that the same are not inconsistent with the provisions of this Lease, do not materially impair Tenant's permitted use of the premises, and a copy thereof is sent to Tenant. Nothing contained in this Lease shall be construed to impose upon Landlord any duty or obligation to enforce such rules and regulations, or the terms, conditions or covenants contained in any other Lease, as against any other tenant, and Landlord shall not be liable to Tenant for violation of the same by any other tenant, or such other Tenant's employees, agents or invitees.

13. **SIGNS**

No sign, advertisement or notice shall be inscribed, painted, affixed or displayed by Tenant on any part of the outside or the inside of the Building except on the doors of offices and on the Building directory and then only in such place, number, size, color and style as is approved by Landlord, and if any such sign, advertisement or notice is exhibited, without Landlord's approval, which approval shall not be unreasonably withheld or delayed, Landlord shall have the right to remove the same and Tenant shall be liable for any and all expenses incurred by Landlord for such removal. All such suite signs, shall be at the sole expense of Tenant, and all directory signage shall be at the sole expense of Landlord.

14. **INSURANCE**

14.1 Tenant shall procure and keep in force at its own expense during the term of this Lease, public liability and property damage insurance in a company acceptable to Landlord, naming Landlord, Landlord's Agent, and any mortgagee of the Building as additional insureds, with a minimum combined single limit coverage of two million dollars (\$2,000,000) (to include "independent contractors" coverage, broad form "contractual" liability, "personal injury" liability and a broad form CGL endorsement). Landlord will accept a certificate showing evidence of coverage under Tenant's umbrella insurance policy. If at any time Tenant does not comply with the foregoing provisions of this Paragraph, Landlord may, at its option cause such insurance to be issued and in such event Tenant shall pay the premium(s) for such insurance promptly upon Landlord's written demand. Tenant shall, in any event, defend, indemnify and save Landlord harmless from and against any and all claims, actions, damages, liability, and expenses, including reasonable attorney's fees, for injury to persons or property, arising in whole or in part from any act or omission of Tenant, its employees, agents, contractors, customers or other visitors, except for negligence on the part of Landlord or its employees.

14.2 In addition to the above, Tenant shall maintain insurance covering all of Tenant's leasehold improvements, trade fixtures and personal property from time to time in, on or upon the Demised Premises and any alterations, improvements, additions or changes made by Tenant thereto in an amount not less than one hundred percent (100%) of their full replacement cost from time to time during the Term of this Lease, providing protection against perils included within the standard form of fire and extended coverage insurance policy, together with insurance against sprinkler leakage or other sprinkler damage, vandalism and malicious mischief. Any policy proceeds from such insurance, so long as this Lease shall remain in effect, shall be applied first for the repair, reconstruction, restoration or replacement of the property damaged or destroyed.

14.3 All insurance policies required to be obtained and maintained by Tenant under this Lease: (1) must be issued by insurance companies with a minimum Best rating of XIII; (2) must be written as primary policy coverage and not contributing with or in excess of any coverage which Landlord may carry; (3) must contain an express waiver of any right of subrogation by the insurance company against Landlord and its agents; (4) must provide that the policy may not be canceled unless Landlord shall have received thirty (30) days prior written notice of cancellation; and (5) shall contain a provision that Landlord and any other parties in interest, although named as insured, shall nevertheless be entitled to recover under said policies for any loss occasioned to them, their servants, agents and employees by reason of the negligence of Tenant (or any other named insured). Tenant shall either: a) provide a Certificate of Insurance within thirty (30) days of occupancy or b) deliver to Landlord certified copies, or duplicate originals, of each such policy or renewal policy, together with evidence of payment of all applicable premiums, not later than thirty (30) days after the Lease Commencement Date, and at least thirty (30) days before the expiration of the expiring policies previously furnished. Any insurance required of Tenant under this Paragraph 14 may be carried under a blanket policy covering the Demised Premises and other locations of Tenant, provided that Tenant shall deliver to Landlord: a) a Certificate of Insurance or b) a duplicate original or certified copy of each blanket policy, or other evidence satisfactory to Landlord of blanket coverage. Neither the issuance of any such insurance policy nor the minimum limits specified in this Paragraph 14 with respect to Tenant's insurance coverage shall be deemed to limit or restrict in any way Tenant's liability arising under or out of this Lease.

14.4 **Insurance Cost Increases Due to Tenant's Activity.** In the event of increases in the insurance rates for fire insurance or other insurance carried by Landlord due to Tenant's activity or property in or about the Demised Premises of the Building, or for improvements to the Demised Premises for which Tenant is responsible, Tenant shall be liable for such increases and shall reimburse Landlord immediately upon written demand therefore. Statements by an insurance company or by the applicable insurance rating bureau that such increases are due to such activity, property or improvements shall be conclusive evidence for determining the liability of Tenant hereunder.

14.5 **Procurement of Certain Policies by Landlord.** Landlord shall procure and keep in force at its own expense during the term of this Lease public liability and property damage insurance policies with respect to building operations exclusive of the Demised Premises with not less than a combined single limit of one million dollars (\$1,000,000) and general annual aggregate limit coverage of two million dollars (\$2,000,000). Such policy shall be full general liability coverage with no unusual exclusions.

14.6 **Insurance on Landlord's Building and Improvements.** In addition to the insurance described in paragraph 14.5 above, Landlord shall maintain insurance covering the entire Building and Landlord's improvements and personal property from time to time in, on or upon the Building and any alterations, improvements, additions or changes made by Landlord thereto in an amount not less than ninety percent (90%) of their full replacement cost from time to time during the entire term of this Lease, providing protection against perils included within the standard form of fire and extended coverage insurance policy, together with insurance against sprinkler leakage or other sprinkler damage, vandalism and malicious mischief. Landlord shall apply the claim payment proceeds of such insurance, subject and subordinate to the mortgagor, directly to the repair or restoration of the loss or damage to the Building that was the basis of such claim.

14.7 **General Provisions Relating to Landlord's Insurance.** All insurance policies required to be obtained and maintained by Landlord under this lease (i) must be issued by insurance companies with a minimum Best rating of XIII; (ii) must be written as primary policy coverage and not contributing with or in excess of any coverage which Tenant may carry; (iii) must provide for a waiver of any right of subrogation by the insurance company against Tenant and its agents.

14.8 **Insurance Does Not Limit Liability.** Landlord and Tenant hereby expressly agree that the insurance provisions of this Lease, including the required minimum limits set forth in paragraphs 14.1, 14.2, 14.5, and 14.6 of this Lease, are intended to assure that certain minimum standards of insurance protection are afforded by or on behalf of the parties. No specification as to type, scope, amount or amounts of such insurance shall in any way be construed as a limitation or measurement of the liabilities of Tenant or Landlord arising under or out of this Lease.

15. **INDEMNITY**

15.1 **General Release of Landlord Liability.** Except due to Landlord's negligence, Tenant does hereby release, indemnify and hold Landlord harmless from and against any injury, Loss, compensation or claim by Tenant, including, but not limited to, claims for the interruption of or loss to Tenant's business, based on, arising out of or resulting from any cause whatsoever (except as otherwise provided in this Paragraph 15) including, but not limited to, the following: repairs to any portion of the Demised Premises; interruption in the use of the Demised Premises or any equipment therein; any fire, robbery, theft, vandalism, mysterious disappearance in or on the Demised Premises; and any leakage in any part or portion of the Demised Premises or the Building, or from water, rain, ice or snow that may leak into or flow from, any part of the Demised Premises or the Building, or from drains, pipes or plumbing fixtures in the Building. Any goods, property or personal effects stored or placed by Tenant, its employees or agents in or about the Demised Premises shall be at the sole risk of Tenant and Landlord shall not in any manner be held responsible therefore. Notwithstanding the foregoing provisions of this Paragraph 15.1, Landlord shall not be released from liability to Tenant or any other person or entity for any injury to any natural person or to any property of Tenant caused by the negligence of Landlord or its employees.

15.2 Landlord assumes no liability or responsibility whatsoever with respect to the conduct and operation of the business to be conducted by Tenant in the Demised Premises. Landlord shall not be liable for any accident to or injury to any person or persons or property in or about the Demised Premises which are caused by the conduct or operation of said business or by virtue of equipment or property of Tenant in said Demised Premises, and Tenant agrees to hold the Landlord harmless against all such claims.

15.3 Tenant will indemnify Landlord and hold Landlord harmless from and against any loss, damage or liability, occasioned by or resulting from any default hereunder or any wrongful or grossly negligent act on the part of the Tenant, its agents, servants, employees, invitees, clients or persons authorized on the Demised Premises by Tenant. Landlord will indemnify Tenant and hold Tenant harmless from and against any loss, damage or liability, including reasonable attorney's fees, occasioned by or resulting from any default hereunder or any wrongful or negligent act on the part of the Landlord, its agents, servants, employees, authorized on the Demised Premises by Tenant.

15.4 In the event that at any time during the term of this Lease Tenant shall have a claim against Landlord, Tenant shall not have the right to set off or deduct the amount allegedly owed to Tenant from any rent or other sums payable to Landlord hereunder.

16. **SERVICES**

16.1 Landlord will provide the following services:

a. Automatically operated elevator service twenty-four (24) hours per day, seven (7) days a week. Access to the Building after Normal Building Hours, which are 7:00 a.m. to 6:00 p.m., Monday through Friday and 8:00 a.m. to 12:00 p.m., Saturday shall be via the Building card access system.

b. Heat, ventilation and air conditioning ("HVAC") when necessary to provide a seasonable temperature (subject to governmental regulations) for normal occupancy and use of the Demised Premises during Normal Building Hours. No regular HVAC service will be provided on Sunday or recognized legal holidays. In the event Tenant requests the use of Building HVAC after Normal Building Hours, Tenant shall pay for such use at an hourly rate of \$18.50 per hour with a two (2) hour minimum.

c. Electricity for building standard lighting during Normal Building Hours. If Tenant regularly utilizes the Demised Premises beyond Normal Building Hours, electricity for building standard lighting used beyond Normal Building Hours shall be considered excess electric and Tenant agrees to pay Landlord, promptly upon demand, as Additional Rent hereunder for all electric consumed for the use of said after-hours lighting at the average rate per unit of energy then in effect.

d. Electricity allowance for 120/208-volt power for operation of desk-top computers, printers, fax machines, copy machines, telephone equipment, non-standard Building lighting, and other energy consuming devices ("Office Equipment"). In the event Landlord reasonably determines that Tenant is consuming an excessive amount of electricity, Landlord reserves the right to separately meter Tenant's space at Tenant's expense and Tenant agrees to pay to Landlord, promptly upon demand, as Additional Rent hereunder for said excessive electricity at the average rate per unit energy then in effect. An independent engineer selected by Landlord shall reasonably determine electricity consumption. Tenant shall have the option to have an electric meter installed at Tenant's expense.

e. Dedicated computer rooms and supplemental air conditioning and/or air ventilation units shall not be considered standard Office Equipment and shall be separately metered, at Tenant's expense. Tenant agrees to pay Landlord, promptly upon written demand, as Additional Rent hereunder for all electric consumed by non-standard Office Equipment at the average rate per unit energy then in effect. Whenever heat generating machines and/or equipment are used by Tenant in the Demised Premises, Landlord reserves the right to install supplementary air conditioning and or air ventilation units for the Demised Premises and the cost of installation, operation and maintenance thereof shall be paid by Tenant at rates set by Landlord as Additional Rent.

f. Landlord shall perform all light tubes or bulb replacements at Tenant's reasonable request and the cost for same shall be included as an item of Operating Expenses; provided, however, that the cost of replacing non-Building standard or specialized lights shall be replaced at Tenant's sole cost and expense.

g. Rest room facilities and necessary lavatory supplies, including hot and cold running water, at those points of supply provided for the general use of other tenants in the Building, and routine maintenance, painting, and electrical lighting service for all public areas and special service areas of the Building in the manner and to the extent that is standard for first-class office buildings in the St. Louis metropolitan area.

h. Access to the Demised Premises on a full-time twenty-four hour basis, subject to such reasonable regulations and/or security systems that Landlord may impose for security purposes.

i. Janitorial services that are standard for first-class office buildings in the St. Louis metropolitan area.

j. Access to the front door of the Building during Normal Building Hours. After-hours access shall be through the Building's card access system.

16.2 Any failure by Landlord to furnish the foregoing services as a result of governmental restrictions, energy shortages, equipment breakdowns, maintenance, repairs, strikes, scarcity of labor or materials, or from any cause beyond the control of Landlord, shall not render Landlord liable in any respect for damages to any person or property, nor be construed as an eviction of Tenant, nor work an abatement of rent, nor relieve Tenant from Tenant's obligations hereunder. If the Building equipment should cease to function properly, Landlord shall use reasonable diligence to repair the same promptly.

16.3 Tenant shall pay directly to the utility companies all costs and charges for Tenant's consumption of utilities (other than water) under any separate meters installed for the Demised Premises and shall pay to Landlord, as additional rent, its proportionate share of electric bills rendered to Landlord under any meters shared by Tenant with another tenant or tenants. In the event the cost of any such utilities is billed to Landlord, then Tenant shall reimburse Landlord the full cost thereof, as additional rent, within ten (10) days after demand therefor. The provision of Paragraph 3.4 of this Lease shall apply if any payment due pursuant to this Paragraph is not made when due. In the event any charges for utilities billed directly to Landlord are not allocated to Tenant on the basis of Tenant's actual usage (i.e., through the use of submeters), then such charges shall be allocated by Landlord based on the ratio of the area of the Demised Premises compared to the area serviced by the applicable meter or submeter. In the event Landlord reasonably determines that Tenant is consuming an excessive amount of electricity due to a 24-hour computer system, any other electrical system or any reason whatsoever, Landlord reserves the right to separately meter Tenant's space at Tenant's sole cost and expense.

17. PARKING

Landlord will provide Tenant unreserved parking per municipal code of the City of Creve Coeur, which is currently 3.33 parking spaces per 1,000 rentable square feet of leased space, and Landlord will also provide Tenant three (3) reserved covered parking space in a location to be reasonably determined by Landlord. This parking will be provided free of charge, through-out the term of the Lease, in the parking structures that service the Building. Additional reserved covered parking spaces shall be available to Tenant at a charge of Fifty and 00/100 Dollars (\$50.00) per parking space per month. All parking for the Building will be structured.

18. DAMAGE BY FIRE OR OTHER CASUALTY

18.1 If the Demised Premises shall be damaged by fire or other casualty, not due to the negligence or fault of Tenant, Landlord shall, as soon as practicable after such damage occurs (subject to being able to obtain all necessary permits and approvals, including, without limitation, permits and approvals required from any agency or body administering environmental laws, rules or regulations, and taking into account the time necessary to effectuate a satisfactory settlement with any insurance company) repair such damage at Landlord's expense and this Lease shall not terminate. It is understood and agreed that the Building, whether partially or totally damaged or destroyed, need not be restored to the same condition as existed prior to such damage or destruction, provided the Building is restored to a condition architecturally harmonious and consistent with the Demised Premises and the balance of the Building. Landlord shall not be required to expend more for any repair, rebuilding, reconstruction, restoration, or replacement of the Demised Premises and/or the Building pursuant to this Paragraph than the amount of insurance proceeds paid to Landlord in connection therewith (or if Landlord shall be self-insured, the amount of insurance proceeds which would otherwise have been paid to Landlord had not Landlord been so self-insured). If the Building is so substantially damaged that it is reasonably necessary, in Landlord's judgment, to demolish the same for the purpose of reconstruction, Landlord may demolish the same, in which event Landlord may treat such demolition as if it had been caused by the same cause as that which caused the damage.

18.2 Except as otherwise provided herein, if the entire Demised Premises are rendered untenable by reason of any such damage, all rent and additional rent shall abate for the period from the date of the damage to the date the damage is repaired, and if only a part of the Demised Premises are so rendered untenable, the rent shall abate for the same period in the proportion that the area of the untenable part bears to the total area of the Demised Premises; provided, however, that if, prior to the date when all of the damage has been repaired, any part of the Demised Premises so damaged are rendered tenantable and shall be used or occupied by or through Tenant, then the amount by which the rent abates shall be apportioned for the period from the date of such use or occupancy to the date when all the damage has been repaired. No compensation or reduction of rent will be paid or allowed by Landlord for inconvenience, annoyance, or injury to Tenant's business arising from the need to repair the Demised Premises or the Building.

18.3 Landlord shall have no obligation to repair damage to or to replace Tenant's personal property or any other property located in the Demised Premises, and Tenant shall within thirty (30) days after the Building is sufficiently repaired so as to permit the commencement of work by Tenant, commence to repair, reconstruct and restore or replace the Demised Premises (including fixtures, furnishings and equipment) and prosecute the same diligently to completion.

18.4 Notwithstanding the foregoing provisions, if (a) the Demised Premises shall be so damaged by fire or other casualty that they cannot be fully repaired within a reasonable period of time after the date of damage, or (b) the Building shall be so damaged by fire or other casualty that, in Landlord's opinion, substantial alteration or reconstruction of the Building is required (whether or not the Demised Premises have been damaged or rendered untenable), then Landlord, at its option, within one hundred twenty (120) days after the fire or other casualty, may give Tenant written notice of termination of this Lease and, in the event such notice is given, this Lease and the term shall terminate (whether or not the term shall have commenced) upon the expiration of thirty (30) days after the date of notice with the same effect as if the date of expiration of the thirty (30) days were the date initially fixed for expiration of the term, and all rents shall be apportioned as of such date. Tenant shall have the right to terminate if the damage has not been repaired within 120 days of the date the damage has occurred.

18.5 If the Demised Premises or the Building shall be damaged by fire or other casualty due to the act or omission of Tenant, or any of its employees, agents, licensees, invitees, assignees, subtenants, customers, clients, or guests, this Lease shall not terminate and Tenant shall remain fully liable to Landlord and Landlord shall retain all rights and remedies it has against Tenant pursuant to the terms of this Lease.

19. **CONDEMNATION**

19.1 Tenant agrees that if the whole or a substantial part of the Demised Premises shall be taken or condemned for public or quasi-public use or purpose by any competent authority, Tenant shall have no claim against the Landlord and shall not have any right to any portion of the amount that may be awarded as damages or paid as a result of any such condemnation; and all right of the Tenant to damages for the unexpired leasehold estate and leasehold improvements that are, have become, or will become, by the terms and conditions of this Lease, the property of the Landlord, if any, are hereby assigned by the Tenant to the Landlord. And upon such entire or substantial condemnation or taking, the term of this Lease shall cease and terminate from the date of such governmental taking or condemnation or taking, and the Tenant shall have no claim against the Landlord for the value of any unexpired term of this Lease. If less than a substantial part of the Demised Premises is taken or condemned by any governmental authority for any public or quasi-public use or purpose, the rent shall be equitably adjusted on the date when title vests in such governmental authority and the Lease shall otherwise continue in full force and effect. For purposes of this Paragraph, a substantial part of the Demised Premises shall be considered to have been taken if more than fifty percent (50%) of the Demised Premises are thereafter unusable by Tenant.

19.2 If any part of the Building (including, without limitation, the Common Areas) is taken by condemnation so as to render, in Landlord's reasonable judgment, the remainder unsuitable for use as an office building, Landlord shall have the right to terminate this Lease upon notice in writing to Tenant within one hundred twenty (120) days after possession is taken by such condemnation. If Landlord terminates this Lease upon a condemnation of the Building as herein provided, it shall terminate as of the day possession is taken by the condemning authority, and Tenant shall pay rent and perform all of its other obligations under this Lease up to that date with a proportionate refund by Landlord of any Rent as may have been paid in advance for a period subsequent to such possession.

20. **DEFAULT**

20.1 If the Tenant shall:

(a) fail to pay the rent or any installment thereof as aforesaid, and/or any additional rent as herein provided, and/or any late fee, when the same shall become due and payable, and such default shall continue for more than five (5) days after the date such payment is due; or

(b) default in the performance of any of the other covenants, conditions, terms, agreements, rules or regulations herein contained, or hereafter established, on the part of the Tenant to be kept and performed and such default shall continue for more than ten (10) days after Tenant's receipt of written notice of such default from Landlord; provided, however, that if such failure is incapable of practicably being cured with diligence within such ten (10) day period and if Tenant shall proceed promptly to cure the same and thereafter shall prosecute such curing with diligence, then upon receipt by Landlord of a certificate from Tenant stating the reason such failure cannot be cured within ten (10) days and stating the estimated time necessary to fully cure such failure may be cured, shall be extended for such period as may be necessary to complete the curing of same with diligence; or

(c) be a corporation and shall fail to remain in good standing in the State of Missouri or the state of its incorporation or shall if a foreign corporation, fail to maintain a duly registered agent in the State of Missouri and fail to correct such failure within the time necessary to prevent dissolution or disqualification by the applicable governing authority then, and in each and every such event from thenceforth, and at all times thereafter, at the option of the Landlord, the Lease shall terminate and Tenant's right of possession shall thereupon cease and terminate, and the Landlord shall be entitled to possession of the Demised Premises and to re-enter the same without demand of rent or demand of possession of the Demised Premises by process of law, notice to quit or of intention to re-enter the same being hereby expressly waived by the Tenant. And in the event of such re-entry by process of law or otherwise, the Tenant nevertheless agrees to remain liable for any and all damages which the Landlord may sustain by such re-entry including, without limitation, deficiency in or loss of rent, reasonable attorney's fees, other collection costs and all expenses of placing the Demised Premises in first-class rentable condition, including the costs of subdividing all or part of the Demised Premises; or,

(d) vacate or abandon the Demised Premises during the term of the Lease, the Tenant would be in default, however, abandonment by Tenant shall not be deemed to have occurred as long as rent is paid when due, regardless of whether Tenant occupies the Demised Premises.

20.2 If any of the defaults described in (a) through (d) occurs, Landlord may, but shall not be obligated to, terminate this Lease by notice to Tenant.

20.3 Whether or not this Lease and/or Tenant's right of possession is terminated by reason of Tenant's default, and in addition to any other remedy Landlord may have at law or in equity, Landlord may relet the Demised Premises or any part thereof, alone or together for such term(s) which may be greater or less than the period which otherwise would have constituted the balance of the Lease Term) and on such terms and conditions (which may include concessions of free rent and alterations of the Demised Premises) as Landlord, in its sole discretion, may determine, but Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished by reason of, any failure by Landlord to relet the Demised Premises or any failure by Landlord to collect any rent due upon such reletting.

20.4 Whether or not this Lease is terminated by reason of Tenant's default, Tenant nevertheless shall remain liable for any Base Annual Rent, additional rent or damages which may be due or sustained prior to or as a result of such default, all costs, fees and expenses including, but not limited to, reasonable attorneys' fees, brokerage fees, expenses incurred in placing the Demised Premises in first-class rentable condition, and any other costs and expenses incurred by Landlord in pursuit of its remedies hereunder, or in renting the Demised Premises to others from time to time (all such Base Annual Rent, additional rent, damages, costs, fees and expenses being hereinafter referred to as "Termination Damages"), which, at the election of the Landlord, shall include either:

(a) An amount equal to the Base Annual Rent and additional rent which would have become due during the remainder of the term of this Lease, less the amount of rental, if any, which Landlord shall receive during such period from others to whom the Demised Premises may be rented (other than any additional rent received by Landlord as a result of any failure of such other person to perform any of its obligations to Landlord), in which case such Termination Damages shall be computed and payable in monthly installments, in advance, on the first day of each calendar month following Tenant's default and continuing until the date on which the term of this Lease would have expired but for Tenant's default. Separate suits or actions may be brought to collect any such Termination Damages for any subsequent month(s) by similar proceedings, or Landlord may defer any suits or actions until after the expiration of the Lease Term; or

(b) An amount equal to the present value (as of the date of Tenant's default) of all Base Annual Rent and additional rent which would have become due during the remainder of the term of this Lease, discounted at the rate of eight percent (8%) per annum, which Termination Damages shall be payable to Landlord in one lump sum on demand.

20.5 If Tenant shall (i) generally not pay Tenant's debts as such debts become due or become insolvent, (ii) make an assignment for the benefit of creditors, (iii) file, be the entity subject to, or acquiesce in a petition in any court (whether or not pursuant to any statute of the United States or any state) in any bankruptcy, reorganizations, composition, extension, arrangement, or insolvency proceedings, or (iv) make an application in any proceedings for, be the entity subject to, or acquiesce in, the appointment of a custodian, trustee, receiver or agent for Tenant or all or any portion of Tenant's property; or (v) acquiesce in any petition filed against Tenant in any court (whether or not pursuant to any statute of the United States or any state) in any bankruptcy, reorganization, composition, extension, arrangement or insolvency proceedings, in which Tenant is the subject entity, and, in any of the foregoing enumerated events, (1) an order for relief be issued thereon, or (2) such petition shall be approved by any court, or (3) such proceedings shall not be dismissed, discontinued, terminated or vacated within thirty (30) days after such petition is filed; then, in any of said events, this Lease shall immediately cease and terminate at the option of Landlord with the same force and effect as though the date of occurrence of said event was the date herein fixed for expiration of the term of this Lease. In case any of the foregoing provisions are unenforceable or invalid under the Bankruptcy laws of the United States or the insolvency laws or laws for the relief of debtors of any state or territory, the remaining provisions of this Paragraph shall not be affected thereby, but shall remain in full force and effect. No trustee, interim trustee, debtor in possession, debtor engaged in business, custodian, receiver or assignee, or any fiduciary by whatever name, in dominion, control, custody or title, acting under the purported authority of any law, may assume or assign this lease without the prior written consent of Landlord unless all requirements of the Bankruptcy Laws of the United States are fully satisfied. Such requirements in the event of a proceeding under 11 U.S.C. 101, et seq., include specifically, but without limitation, full compliance with 11 U.S.C. 365 (b) (1) (A), (B) and (C), (b) (3) (A), (B) and (C), (b) (4) and (f) (2) (A) and (B). If the property of Tenant is under administration pursuant to the provision of 11 U.S.C. 101, et seq., then no claim of Landlord for failure or refusal of Tenant to perform the covenants of this Lease shall exceed amounts allowable under 11 U.S.C. 502 (b) (A) and (B), together with any other amounts allowable to Landlord under other provisions of 11 U.S.C. or interpretations thereof.

20.6 The provisions contained in this Section 20 shall be in addition to, and shall not prevent the enforcement of, any claim Landlord may have against Tenant for anticipatory breach of this Lease. If, prior to the commencement of the term of this Lease, Tenant notifies Landlord of, or otherwise unequivocally demonstrates, Tenant's intention to repudiate this Lease, Landlord may, at its option, consider this anticipatory repudiation as a breach of this Lease, in which event Landlord may retain all rent paid upon execution of the Lease and the security deposit, if any, as termination damages of Landlord incurred as a result of such repudiation. In addition, Tenant shall pay in full for all tenant improvements constructed or installed within the Demised Premises to the date of the breach, and shall pay for all materials ordered at Tenant's request for the Demised Premises.

21. TENANT HOLDING OVER

In the event the Tenant shall hold over after the expiration of the term of this Lease or any renewal thereof, then commencing on the first day of the month following expiration of the term hereof and on the first day of each month during Tenant's period of hold-over occupancy, Tenant shall pay to Landlord one hundred and twenty-five percent (125%) of the monthly installment of rent then in effect for the month immediately prior to the expiration of the term hereof and one hundred and twenty-five percent (125%) of the monthly amount of any additional rent payable by Tenant pursuant to the terms of this Lease.

22. HAZARDOUS SUBSTANCES

Tenant covenants and agrees that Tenant shall not (either with or without negligence) cause or permit the escape, disposal or release of any biologically or chemically active or other hazardous substances, (as defined below) or materials on or about the Demised Premises or Building. Tenant shall not allow the storage, use or disposal of such hazardous substances or materials in any manner not sanctioned by law or by the highest standards prevailing in the industry for the storage and use of such hazardous substances or materials, nor allow to be brought into the Demised Premises or Building any such hazardous materials or substances except to use in the ordinary course of Tenant's business, and then only after written notice is given to Landlord of the identity of such hazardous substances or materials. Without limitation, hazardous substances and materials shall include those described in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. Section 9601 et seq., the Resource Conservation and Recovery Act, as amended 42 U.S.C. Section 6901 et seq., any applicable state or local laws, ordinances, ordinances or regulations, and the regulations adopted under these acts. If any lender or governmental agency shall ever require testing to ascertain whether or not there has been any release of hazardous materials or substances due to acts or omissions of Tenant, then the costs thereof shall be reimbursed by Tenant to Landlord upon demand as additional charges if such requirement applies to the Demised Premises or Building. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of hazardous substances or materials on the Demised Premises. In all events, Tenant shall indemnify and hold Landlord harmless from and against any and all claims, costs and liabilities, including without limitation reasonable attorney's fees and costs incurred as a result of a release or threatened release or hazardous materials or substances on the Demised Premises or Building occurring while Tenant is in possession, or if caused by Tenant or persons acting under Tenant. The within covenants shall survive the expiration or earlier termination of the lease term.

23. ATTORNMEN AND CURE RIGHTS

This Lease is subject and subordinate to the first mortgage and/or deed of trust which may now or hereafter affect this Lease or the Building of which the Demised Premises form a part or the land on which the Building is erected, and to all renewals, modifications, consolidations, replacements and extensions thereof. In confirmation of such subordination, Tenant shall, within ten (10) business days after request therefore, execute any commercially reasonable certificate that the Landlord or Landlord's lender may request and which does not modify or amend this Lease. Tenant agrees that in the event any proceeding is brought for the foreclosure of any mortgage encumbering the Building, Tenant shall attorn to the purchaser at such foreclosure sale and shall recognize such purchaser as the Landlord under this Lease, and Tenant waives the provisions of any statute or rule of law, now or hereafter in effect, which may give or purport to give Tenant any right to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event any such foreclosure proceeding is prosecuted or completed provided that the Purchaser at any such foreclosure sale shall recognize this Lease and the rights of Tenant hereunder as long as Tenant is not in default in the performance of any of the terms and provisions on Tenant's part to be kept and performed under this Lease. Tenant agrees that upon such attornment, such purchaser shall not be (1) bound by any payment of annual base rent or additional rent for more than one (1) month in advance, except prepayments in the nature of security for the performance by Tenant of its obligations under this Lease but only to the extent such prepayments have been delivered to such purchaser, (2) bound by any subsequent amendment of this Lease made without the consent of the lender providing permanent financing for the Building, (3) liable for damages for any act or omission of any prior landlord, or (4) subject to any offsets or defenses which Tenant might have against any prior landlord, provided, however, that after succeeding to Landlord's interest under this Lease, such purchaser shall perform in accordance with the terms of this Lease all obligations of Landlord arising after the date such purchaser acquires title to the Building. Upon request by such purchaser, Tenant shall execute and deliver an instrument or instruments confirming its attornment.

Contemporaneous with the execution of this Lease, Tenant shall execute the Subordination, Non-Disturbance and Attornment Agreement (the "SNDA") attached hereto as Exhibit G . Upon receipt of said fully executed SNDA, Landlord shall forward the Agreement to Lender, as that term is defined in the SNDA, for execution by Lender.

24. **MORTGAGEE REQUIREMENTS**

Tenant shall, at its expense, comply with all reasonable requirements and notices of any financial institution(s) providing funds for the permanent financing or refinancing of the Building, respecting all matters of occupancy, use, condition or maintenance of the Demised Premises provided the same shall not unreasonably interfere with the conduct of Tenant's business nor materially limit or affect the rights of the parties under this Lease. In addition, notwithstanding acceptance and execution of this Lease by the parties hereto, it is understood and agreed that the terms hereof shall be automatically deemed modified, if so required, for the purpose of complying with or fulfilling the reasonable requirements of any lender secured by a mortgage or deed of trust which may now or hereafter be placed or secured upon the Building by any financial institution providing funds for the permanent financing or refinancing of the Building, provided, however, that such modifications shall not be in material derogation or diminution of any of the rights of the parties hereunder, nor materially increase any of the obligations or liabilities of the parties hereunder. In the event any lender requires commercially reasonable changes to this Lease as described above, Landlord may submit to Tenant a written amendment to this Lease incorporating such changes and, if such amendment does not interfere with the conduct of Tenant's business or materially limit or affect Tenant's rights and privileges hereunder, Tenant hereby covenants and agrees to execute, acknowledge and deliver such amendment to Landlord within ten (10) business days after Tenant's receipt thereof.

25. ESTOPPEL CERTIFICATES

Tenant shall, without charge, at any time, and from time to time, within ten (10) business days after receipt of request therefore by Landlord, execute, acknowledge and deliver to Landlord, any mortgagee, assignee of a mortgagee, or any purchaser of the Building or any other person designated by Landlord, as of the date of such Estoppel Certificate, the following: (1) whether or not Tenant is in possession of the Demised Premises; (2) whether or not this Lease is unmodified and in full force and effect (or if there has been a modification, that the Lease is in full force and effect (or if there has been a modification, that the Lease is in full force and effect as modified and setting forth such modification); (3) whether or not there are then existing any set-offs or defenses against the enforcement of any right hereunder (and, if so, specifying the same in detail); (4) the dates, if any, to which any rent or no other charges have been paid in advance; (5) that Tenant has no knowledge of any other such uncured defaults on the part of Landlord's obligations under this Lease (or if Tenant has knowledge, specifying the same in detail); (6) that Tenant has no knowledge of any event having occurred that authorizes the termination of this Lease by Tenant (or if Tenant has such knowledge, specifying the same in detail); and (7) the address to which notices to Tenant should be sent. Any such statement delivered pursuant hereto may be relied upon by Landlord or any prospective purchaser or mortgagee of the Building or any part thereof or estate therein. Tenant acknowledges that time is of the essence to the delivery of such statements by Tenant and that Tenant's failure or refusal to do so may result in substantial damages to Landlord resulting from, for example, delays suffered by Landlord in obtaining financing or refinancing secured by the Building. Tenant shall be liable for all such damages suffered by Landlord as a direct result of Tenant's failure or refusal. In addition, if after thirty days from written notice requesting such estoppel certificate, Tenant's failure or refusal to deliver such certificates within the time period aforesaid shall be conclusive evidence as against Tenant (i) that this Lease is in full force and effect, without modification except as may be represented by Landlord, (ii) that there are no uncured defaults in Landlord's performance of obligations hereunder, and (iii) that not more than one month's installment of Minimum Annual Rent has been paid in advance of the due date.

26. LANDLORD'S INABILITY TO PERFORM

This Lease and the obligations of Tenant to pay rent and perform all of the provisions on the part of Tenant to be performed hereunder shall in no way be affected, impaired, or excused because Landlord, due to unavoidable delays, (1) is unable to fulfill any of its obligations under this Lease; (2) is unable to supply or is delayed in supplying any service expressly or implied to be supplied; (3) is unable to make or is delayed in making any repairs, replacements, additions, alterations or decorations; or (4) is unable to supply or is delayed in supplying any improvements, equipment or fixtures. Landlord shall be under no obligation to pay overtime labor rates.

27. TRANSFER BY LANDLORD

Landlord may freely sell, assign, or otherwise transfer all or any portion of its interest under this Lease or in the Demised Premises or the Building, and in the event of any such sale, assignment or other transfer, the party originally executing this Lease as Landlord, and any successor or affiliate of such party, shall, without further agreement between Landlord and Tenant or between Landlord and/or Tenant and the person or entity who is the purchaser, assignee or other transferee of Landlord, be relieved of any and all of its obligations under this Lease, and Tenant shall thereafter be bound to such purchaser, assignee or other transferee, as the case may be, with the same effect as though the latter had been the original Landlord hereunder provided any such assignee, purchaser or transferee has assumed the obligations of Landlord hereunder.

28. **WAIVER**

If under the provisions hereof Landlord shall institute proceedings and a compromise or settlement thereof shall be made, the same shall not constitute a waiver of any covenant herein contained nor of any of Landlord's rights hereunder. No waiver of any breach of any covenant, condition, term or agreement herein contained shall operate as a waiver of the covenant, condition, term or agreement itself or of any subsequent breach thereof. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver shall be in writing signed by Landlord. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly installment of rent herein stipulated shall be deemed to be other than on account of the earliest stipulated rent nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and the Landlord may accept such check or payment without prejudice to the Landlord's right to recover the balance of such rent or pursue any other remedy in this Lease provided. No reentry by Landlord, and no acceptance by Landlord of keys from Tenant, shall be considered an acceptance of a surrender of this Lease.

29. **ATTORNEY'S FEES.**

If any person not a party to this Lease shall institute an action against Tenant in which Landlord shall be made a party, Tenant shall indemnify and save Landlord harmless from all liability by reason thereof, including reasonable attorneys' fees, and all reasonable and necessary costs incurred by Landlord in such action to the extent not attributable to the negligence of Landlord. If any action shall be brought by Landlord to recover any rental under this Lease, or for or on account of any breach of or to enforce or interpret any of the terms, covenants or conditions of this Lease, or for the recovery of possession of the Demised Premises, Landlord shall be entitled to recover from Tenant, as a part of Landlords' costs, a reasonable attorney fee, the amount of which shall be fixed by the court and shall be made a part of any judgment in favor of Landlord, and court costs. If any action is commenced by either party against the other, the prevailing party will be reimbursed for all reasonable attorneys' fees and associated costs by the other party.

30. **GENERAL PROVISIONS**

30.1 **Definition of "Landlord"**. As used herein, the term "Landlord" shall mean the entity herein named as such, and its successors and assigns, each of whom shall have the same rights, remedies, powers, authorities and privileges as it would have had, had it originally signed this Lease as the Landlord. No person holding the Landlord's interest hereunder (whether or not such person is named as "Landlord" herein) shall have any liability hereunder after such person ceases to hold such interest, except for any such liability accruing while such person holds such interest. Neither the Landlord nor any principal of the Landlord, whether disclosed or undisclosed, shall have any personal liability under any provision of this Lease. If the Landlord defaults in the performance of any of its obligations hereunder or otherwise, the Tenant shall look solely to the Landlord's equity, interest and rights in the Building for satisfaction of the Tenant's remedies on account thereof.

30.2 **Definition of "Tenant"**. As used herein, the term "Tenant" shall mean each person hereinabove named as such and such person's heirs, personal representatives, successors and assigns, each of whom shall have the same obligations, liabilities, rights and privileges as it would have possessed had it originally executed this Lease as the Tenant; provided, that no such right or privilege shall inure to the benefit of any subtenant or assignee of the Tenant, immediate or remote, unless the assignment to such assignee or the sublease with such subtenant is made in accordance with the provisions of Paragraph 8, hereof. In the event that two or more individuals, corporations, partnerships or other business associations (or any combination of two or more thereof) shall sign this Lease as Tenant or guarantee this Lease as Guarantors, the liability of each such individual, corporation, partnership or other business association to pay rent and perform all other obligations hereunder shall be deemed to be joint and several. In like manner, in the event that the Tenant named in this Lease shall be a partnership or other business association, the members of which are by virtue of statute or general law subject to personal liability, then, and in that event, the liability of each such member shall be deemed to be joint and several. Notwithstanding any other provisions hereof, or of any rule or provision of law, the failure or refusal by Landlord to proceed, in the event of a breach or default by Tenant, against all the individuals, corporations, partnerships or other business associations comprising the Tenant (or any combination of two or more thereof) or against Tenant or against one or more of the Guarantors, if any, hereof shall not be deemed to be a release or waiver of any rights which Landlord may possess against such other individuals, corporations, partnerships, or associations not so proceeded against, nor shall it not be deemed to be a release or waiver of any rights which Landlord may possess against such other individuals, corporations, partnerships, or associations not so proceeded against, nor shall the granting by Landlord of a release of, or execution of a covenant not to sue anyone or more of the individuals, corporations, partnerships, or other business associations comprising the Tenant (or any combination of two or more thereof) or the Guarantors, if any, constitute a release or waiver, in whole or in part, of any rights which Landlord may possess against such other individuals, corporations, partnerships, or associations not so released or granted a covenant not to sue. In the event the Tenant or any guarantor of the Tenant's obligations hereunder, whether pursuant to a Guaranty attached hereto or otherwise, (herein called "Guarantor") is a corporation or partnership, the persons executing this Lease on behalf of the Tenant and/or such Guarantor(s), as the case may be, hereby represent and warrant that: the Tenant and/or such Guarantor(s), as the case may be, is a duly constituted corporation or partnership qualified to do business in the State of Missouri; all of Tenant's and/or said Guarantor's franchise and corporate taxes have been paid to date; that Tenant and/or such Guarantor(s), as the case may be, is otherwise in good standing in the State of its incorporation; and that such persons are duly authorized to execute and deliver this Lease on behalf of Tenant.

30.3 **No Partnership**. Nothing contained in this Lease shall be deemed or construed to create a partnership or joint venture of or between Landlord and Tenant, or to create any other relationship between the parties hereto other than that of Landlord and Tenant.

30.4 **No Representation**. Neither Landlord nor any agent or employee of Landlord has made any representation or promise with respect to the Demised Premises or the Building except as herein expressly set forth, and no rights, privileges, easements or licenses are acquired by Tenant except as herein set forth.

30.5 **Brokers**. Landlord and Tenant each represents and warrants to the other that, except as set forth herein, neither of them has employed or dealt with any broker, agent or finder in carrying on the negotiations relating to this Lease. Landlord shall pay to Tenant's broker, Sansone Group, under the direction and along with Transwestern Commercial Services, a commission per a separate brokerage agreement between Landlord and Sansone Group and Transwestern Commercial Services. Landlord shall also pay to Landlord's broker, The Koman Group, L.L.C., a commission per a separate brokerage agreement between Landlord and The Koman Group, L.L.C. Tenant and Landlord shall mutually indemnify and hold each other harmless from and against any claim or claims for brokerage or other commissions asserted by any broker, agent or finder engaged by either party, other than Sansone Group, Transwestern Commercial Services and The Koman Group, L.L.C.

30.6 **Invalidity of Particular Provisions**. It is the intention of the parties hereto that if any provision of this Lease is capable of two constructions, one of which would render the provision invalid, and the other of which would render the provision valid, then the provision shall have the meaning which renders it valid. If any term or provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remaining terms and provisions of this Lease, or the application of such terms and provisions to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and enforced to the fullest extent permitted by law.

30.7 **Notices**. All notices required to be given hereunder by either party to the other shall be given by personal delivery, sent by a reputable private carrier of overnight mail or by certified or registered mail, return receipt requested. In the event notice is given by personal delivery, notice shall be deemed given when delivered; if notice is given by private carrier it shall be deemed made on the day after such sending; or if by mail, it shall be deemed given when deposited into the United States mail, postage prepaid. Notices to the respective parties shall be to the address written below or such other address as notified to the other parties and such notice shall be deemed to be made on the fifth (5th) day after such mailing:

If to the Landlord:

Cornerstone Opportunity Ventures, LLC
c/o The Koman Group
One CityPlace Drive, Suite 540
Creve Coeur, Missouri 63141
Attn: William J. Koman, Jr.

With a copy to:

Paul D. Chesterton, Esq.
c/o The Koman Group
One CityPlace Drive
Suite 540
Creve Coeur, Missouri 63141

If to the Tenant:

Perficient, Inc.
622 Emerson Road, Suite 400
St. Louis, MO 63141
(Attention: Dick Kalbfleish)

If to the Mortgagee:

Any party may, by like written notice, designate a new address to which such notices shall be directed.

30.8 Construction.

(a) As used herein, the term "person" shall mean a natural person, a trustee, a corporation, a partnership and any other form of legal entity; and all references made (1) in the neuter, masculine or feminine gender shall be deemed to have been made in all such genders, and (2) in the singular or plural number shall be deemed to have been made, respectively, in the plural or singular number as well.

(b) The headings of the Paragraphs hereof are provided only for convenience of reference, and shall not be considered in construing the contents thereof.

(c) Time is of the essence with respect to each of Tenant's obligations under this Lease.

(d) Although the printed provisions of this Lease were drawn by Landlord, this Lease shall not be construed for or against Landlord or Tenant, but this Lease shall be interpreted in accordance with the general tenor of the language in an effort to reach the intended result.

30.9 Governing Law. This Lease shall be construed and enforced in accordance with the laws of the State of Missouri, and any action or proceeding arising hereunder shall be brought in the courts of State of Missouri. If any such action or proceeding arises under the Constitution, laws or treaties of the United States of America, or if there is a diversity of citizenship between the parties hereto, so that suit may be brought in a United States District Court, it shall be brought in the United States District Court for the Eastern District of Missouri, Eastern Division.

31. **OPTION TO RENEW LEASE**

Tenant shall have the right to renew this Lease for two (2) additional five (5) year terms upon nine (9) month's prior written notice to Landlord. The Tenant shall have the right to renew the lease at market rate at the notice of renewal time, but in no event will the renewal rent be less than the initial rent.

32. **RIGHT OF REFUSAL**

During the term of this Lease and any renewal periods, Tenant shall have a right of refusal to lease the approximately nine thousand six hundred fifty-four (9,654) rentable square feet of space contiguous to Tenant's space and currently occupied by Wells Fargo Home Mortgage, Inc. (the "ROR Space") as set forth on Exhibit I, attached hereto and incorporated herein as the Right of First Refusal Floor Plan. Tenant's right of refusal shall be triggered by any one of the following: (i) Landlord's receipt of notice that Wells Fargo Home Mortgage, Inc. will terminate its lease; (ii) termination of the lease between Landlord and Wells Fargo Home Mortgage, Inc.; (iii) Landlord's receipt of written notice that Wells Fargo Home Mortgage, Inc. will vacate the ROR space; or (iv) Wells Fargo Home Mortgage, Inc.'s failure to provide Landlord notice of its intention to renew its lease within the required time period for such notice as specified in the lease agreement between Landlord and Wells Fargo Home Mortgage, Inc. (collectively the "ROR Trigger"). Upon Tenant's receipt of written notice from Landlord of the activation of the ROR Trigger, Tenant shall have ten (10) days to accept Landlord's offer in writing. Tenant's failure to respond within such ten (10) day period shall constitute a rejection of Landlord's offer.

If Tenant accept Landlord's offer, then promptly after receipt of such notice by Landlord, the parties shall execute an amendment to this Lease incorporating the ROR Space (the "Additional Demised Premises") as part of the Demised Premises. Tenant shall be deemed to occupy the Additional Demised Premises and Base Annual Rent shall begin to accrue on the Additional Demised Premises the day after the date Landlord substantially (i.e., excluding minor punch list items) completes construction of all of Landlord's Additional Demised Premises Work in accordance with the Additional Demised Premises Work Plans and delivers possession of the Additional Demised Premises to Tenant. The term "Landlord's Additional Demised Premises Work" shall mean all work set forth in the Additional Demised Premises Work Plans. The term "Additional Demised Premises Work Plans" shall mean those plans and specifications for the work to be performed in the Additional Demised Premises prepared by Landlord and approved in writing by Tenant.

Landlord and Tenant shall use all reasonable efforts to agree upon the terms of a lease for the Additional Demised Premises; provided, however, that the term of occupancy for the Additional Demised Premises and the Demised Premises shall be no less than five years from the date Tenant occupies the Additional Demised Premises. Further, Landlord and Tenant shall use all reasonable efforts to agree upon the Additional Demised Premises Work Plans. If Landlord and Tenant have not agreed upon the terms of a lease for the Additional Demised Premises (including the Additional Demised Premises Work Plans), within the earlier of (a) thirty (30) days after the date Tenant elects to lease the Additional Demised Premises or (b) the date that the ROR Space could be occupied by another Tenant, then either party may terminate the right of refusal upon the delivery of written notice to the other party.

33. **RIGHT TO RELOCATE**

If Tenant occupies less than 7,500 rentable square feet of space, Landlord shall have the right, upon thirty (30) days' advance written notice to Tenant, to immediately relocate Tenant to space in any other building located on the CityPlace Campus (excluding the Oaks Building) that is comparable in size and finish to Tenant's current space, at no additional cost to Tenant (even if the space is larger); provided that if the space is smaller, Tenant's Base Annual Rent shall be abated at the applicable Base Annual Rent rate set forth in Section 3.1, above. If Landlord exercises this right, Landlord shall bear all reasonable relocation costs and expense incurred to move Tenant to the new space.

34. **RESOLUTION OF DISPUTES**

Landlord and Tenant will use their best efforts to resolve any disputes between them with respect to their respective obligations and the completion of the Landlord's Work and Tenant's Work as efficiently and as cost-effectively as possible.

At all relevant times, Landlord and Tenant will make bona fide and good faith efforts to resolve all disputes by amicable negotiations; and ensure their representatives will meet, negotiate in good faith and try to resolve each dispute without litigation.

If a dispute cannot be resolved through amicable negotiations, Landlord and Tenant will promptly participate in mediation with a mutually acceptable mediator.

The parties will share the cost of the mediator equally and bear their own costs with respect to the mediation.

35. **ENTIRE AGREEMENT**

This Lease together with all Exhibits attached hereto contains and embodies the entire agreement of the parties hereto, and no representations, inducements or agreements, oral or otherwise, between the parties not contained and embodied in this Lease shall be of any force or effect, and this Lease may not be modified, changed or terminated in whole or in part in any manner other than by an agreement in writing signed by all parties hereto. All of Tenant's duties and obligations hereunder, including but not limited to Tenant's duties and obligations to pay base rent, additional rent and the costs, expenses, damages and liabilities incurred by Landlord for which Tenant is liable, shall survive the expiration or termination of this Lease for any reason whatsoever.

36. **NO OPTION**

The submission of this Lease for examination or consideration by Tenant or discussion between Tenant and Landlord does not constitute a reservation of or option for the Demised Premises or any other space in the Building, and this Lease shall be and become effective as Lease and agreement only upon legal execution, acknowledgment and delivery hereof by Landlord and Tenant.

IN WITNESS WHEREOF, the undersigned have caused this Lease to be signed and sealed as of the day and year first above written.

LANDLORD:
CORNERSTONE OPPORTUNITY VENTURES, LLC

By: /s/ William J. Koman, Jr.
William J. Koman, Jr.
Managing Member

STATE OF MISSOURI)
)
 ss
COUNTY OF ST. LOUIS)

Personally appeared before me the undersigned, a Notary Public in and for said County and State, William J. Koman, Jr., known to me to be the Managing Member of Cornerstone Opportunity Ventures, LLC, the entity which executed the foregoing document who acknowledged that he did sign the foregoing instrument for and on behalf of said entity, being there unto duly authorized; that the same is his free act and deed as such Manager and the free act and deed of said entity.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal this 21st day of December, 2005.

My Commission expires: /s/ Janet King
10/3/08 Notary Public

TENANT:
PERFICIENT, INC.

By: /s/Dick Kalbfleish
Printed Name: Dick Kalbfleish
Title: Vice President - Finance & Administration

STATE OF MISSOURI)
)
 ss
COUNTY OF ST. LOUIS)

Personally appeared before me the undersigned, a Notary Public in and for said County and State, Dick Kalbfleish known to me to be the Vice President - Finance & Administration of Perficient, Inc. the entity which executed the foregoing document who acknowledged that he did sign the foregoing instrument for and on behalf of said entity, being there unto duly authorized; that the same is his free act and deed as such officer and the free act and deed of said entity.

IN TESTIMONY WHEREOF, I have hereunto set my hand and official seal this 19 day of December, 2005.

My Commission expires: /s/ Kelly L. Brosnan
3/24/08 Notary Public

Subsidiaries

Perficient, Inc.
Perficient Canada Corp
Core Objective, Inc.
Perficient Genisys, Inc.
Perficient Meritage, Inc.
Perficient Zettaworks, Inc.
Perficient iPath, Inc.
Perficient Vivare, Inc.
Perficient International Limited

Consent of Independent Registered Public Accounting Firm

Perficient, Inc.
Austin, Texas

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-100490, No. 333-116549, No. 333-117216, No. 333-123177 and No. 333-129054) and Form S-8 (No. 333-42626, No. 333-44854, No. 333-75666, No. 333-118839 and No. 333-130624) of Perficient, Inc. of our reports dated March 30, 2006, relating to the consolidated financial statements and schedule, and the effectiveness of Perficient, Inc.'s internal control over financial reporting, which appear in this Annual Report on Form 10-K. Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005.

BDO Seidman, LLP

Houston, Texas
March

30,

2006

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-100490, 333-116549, 333-1117216, 333-123177, and 333-129054) and Form S-8 (Nos. 333-42626, 333-44854, 333-75666, 333-118839, and 333-130624) of Perficient, Inc. of our report dated January 9, 2004, with respect to the consolidated financial statements of Perficient, Inc. for the year ended December 31, 2003 included in the Annual Report (Form 10-K) for the year ended December 31, 2005.

/s/ Ernst & Young LLP

Austin, Texas
March 29, 2006

CERTIFICATIONS

I, John T. McDonald, certify that:

1. I have reviewed this annual report on Form 10-K of Perficient, Inc.;

2. Based on my knowledge, this 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 report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: March 30, 2006

By: /s/ John T. McDonald

John T. McDonald

Chief Executive Officer

I, Michael D. Hill, certify that:

1. I have reviewed this annual report on Form 10-K of Perficient, Inc.;

2. Based on my knowledge, this 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 report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13(a)-15(f) and 15d-15(f)) for the registrant 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 registrant, 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: March 30, 2006

By: /s/ Michael D. Hill

Michael D. Hill

Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER**

Pursuant to 18 U.S.C. § 1350 and in connection with the accompanying report on Form 10-K for the fiscal year ended December 31, 2005 that is being filed concurrently with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of Perficient, Inc. (the "Company"), hereby certifies 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.

Date: March 30, 2006

By: /s/ John T. McDonald

John T. McDonald

Chief Executive Officer

Date: March 30, 2006

By: /s/ Michael D. Hill

Michael D. Hill

Chief Financial Officer