UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2005

OR

o **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, including Zip Code)

(512) 531-6000
(Registrant's Telephone Number, Including Area Code)

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 during the past 90 days. Yes ☑ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

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

As of November 2, 2005, there were 23,064,998 shares of Common Stock outstanding.

TABLE OF CONTENTS

Certifications

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Perficient, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

	December 31, 2004	September 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,905,460	$ 3,256,685
Accounts receivable, net	20,049,500	26,414,487
Other current assets	336,309	1,452,697
Total current assets	24,291,269	31,123,869
Property and equipment, net	805,831	973,001
Goodwill	32,818,431	46,239,334
Intangible assets, net	4,521,460	6,190,487
Other non-current assets	145,374	1,358,918
Total assets	$ 62,582,365	$ 85,885,609
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 6,927,523	$ 2,451,009
Note payable and current portion of long-term debt	1,135,354	1,314,271
Other current liabilities	6,750,968	9,174,974
Current portion of note payable to related parties	243,847	239,331
Total current liabilities	15,057,692	13,179,585
Long-term borrowings, net of current portion	2,676,027	11,681,803
Note payable to related party, net of current portion	226,279	—
Total liabilities	17,959,998	24,861,388
Stockholders’ equity:		
Common stock	20,914	22,952
Additional paid-in capital	102,637,699	113,917,324
Deferred stock compensation	(1,656,375)	(1,694,060)
Accumulated other comprehensive loss	(57,837)	(80,940)
Accumulated deficit	(56,322,034)	(51,141,055)
Total stockholders’ equity	44,622,367	61,024,221
Total liabilities and stockholders’ equity	$ 62,582,365	$ 85,885,609

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30	
	2004	2005	2004	2005
Revenue				
Services	$13,454,616	$23,157,484	$29,771,852	$60,048,582
Software	3,391,358	1,917,663	5,793,600	4,717,821
Reimbursable expenses	677,158	1,047,576	1,658,251	2,741,254
Total revenue	17,523,132	26,122,723	37,223,703	67,507,657
Cost of revenue (exclusive of depreciation shown separately below)				
Project personnel costs	8,199,266	13,771,351	17,763,263	36,318,629
Software costs	2,913,946	1,503,502	4,898,381	3,881,435
Reimbursable expenses	677,158	1,047,576	1,658,251	2,741,254
Other project related expenses	55,875	501,842	218,173	1,264,525
Total cost of revenue	11,846,245	16,824,271	24,538,068	44,205,843
Gross margin	5,676,887	9,298,452	12,685,635	23,301,814
Selling, general and administrative	3,391,899	5,100,950	7,585,858	12,925,771
Depreciation	138,718	148,870	363,593	459,091
Amortization of intangibles	233,541	493,522	446,320	1,074,161
Total operating expense	3,764,158	5,743,342	8,395,771	14,459,023
Income from operations	1,912,729	3,555,110	4,289,864	8,842,791
Interest income	1,069	2,878	1,706	10,797
Interest expense	(52,983)	(203,765)	(82,116)	(437,533)
Other	20,612	5,034	22,514	13,163
Income before income taxes	1,881,427	3,359,257	4,231,968	8,429,218
Provision for income taxes	735,338	1,293,392	1,655,338	3,248,239
Net income	$ 1,146,089	$ 2,065,865	$ 2,576,630	$ 5,180,979
Basic net income per share	$ 0.06	$ 0.09	$ 0.15	$ 0.24
Diluted net income per share	$ 0.05	$ 0.08	$ 0.13	$ 0.21
Shares used in computing basic net income per share	19,227,873	22,418,098	17,013,579	21,703,086
Shares used in computing diluted net income per share	21,844,127	25,503,985	19,904,355	25,034,386

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Condensed Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2005
(unaudited)

	Common Stock Shares	Common Stock Amount	Common Stock Warrants	Additional Paid-in Capital	Deferred Compen-sation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
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	24,557	25	(54,560)	161,678	—	—	—	107,143
Stock options exercised	364,640	364	—	567,484	—	—	—	567,848
Tax benefit of stock option exercises	—	—	—	596,931	—	—	—	596,931
Amortization of deferred compensation	—	—	—	—	59,156	—	—	59,156
Foreign currency translation adjustment	—	—	—	—	—	(20,800)	—	(20,800)
Net income	—	—	—	—	—	—	1,488,303	1,488,303
Balance at March 31, 2005	**21,302,729**	**$ 21,303**	**$ 395,607**	**$ 103,513,625**	**$ (1,597,219)**	**$ (78,637)**	**$ (54,833,731)**	**$ 47,420,948**
iPath acquisition	623,803	624	—	4,515,710	—	—	—	4,516,334
Forfeiture of contingent shares for Genisys acquisition	(41,190)	(41)	—	(155,245)	—	—	—	(155,286)
Stock options exercised	197,378	197	—	334,121	—	—	—	334,318
Tax benefit of stock option exercises	—	—	—	253,165	—	—	—	253,165
Amortization of deferred compensation	—	—	—	—	59,156	—	—	59,156
Foreign currency translation adjustment	—	—	—	—	—	(8,735)	—	(8,735)
Net income	—	—	—	—	—	—	1,626,811	1,596,059
Balance at June 30, 2005	**22,082,720**	**$ 22,083**	**$ 395,607**	**$ 108,461,376**	**$ (1,538,063)**	**$ (87,372)**	**$ (53,206,920)**	**$ 54,046,711**
Vivare acquisition	618,500	618	—	4,347,437	—	—	—	4,348,055
Stock options exercised	216,639	217	—	387,807	—	—	—	388,024
Deferred stock compensation	33,552	34	—	229,160	(229,160)	—	—	34
Tax benefit of stock option exercises	—	—	—	95,937	—	—	—	95,937
Amortization of deferred compensation	—	—	—	—	73,163	—	—	73,163
Foreign currency translation adjustment	—	—	—	—	—	6,432	—	6,432
Net income	—	—	—	—	—	—	2,065,865	2,065,865
Balance at September 30, 2005	**22,951,411**	**$ 22,952**	**$ 395,607**	**$ 113,521,717**	**$ (1,694,060)**	**$ (80,940)**	**$ (51,141,055)**	**$ 61,024,221**

See accompanying notes to interim unaudited condensed consolidated financial statements

Perficient, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	2004	2005
OPERATING ACTIVITIES		
Net income	$ 2,576,630	$ 5,180,979
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation	363,593	459,091
Amortization of Intangibles	446,320	1,074,161
Non-cash stock compensation	26,613	191,475
Non-cash interest expense	33,242	19,205
Tax benefit of stock option exercises	—	946,033
Changes in operating assets and liabilities (net of acquisitions):		
Accounts receivable	(5,439,935)	(3,013,587)
Other assets	(93,658)	(1,101,880)
Accounts payable	3,100,372	(4,475,708)
Other liabilities	683,260	1,454,359
Net cash provided by (used in) operating activities	1,696,437	734,128
INVESTING ACTIVITIES		
Purchase of property and equipment	(315,371)	(548,200)
Capitalization of software developed for internal use	—	(483,596)
Purchase of businesses, net of cash acquired	(7,905,159)	(9,703,984)
Payments on Javelin Notes	(375,000)	(250,000)
Net cash used in investing activities	(8,595,530)	(10,985,780)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	2,500,000	12,000,000
Payments on short-term borrowings	—	(2,000,000)
Payments on long-term debt	—	(815,307)
Deferred offering costs	—	(943,006)
Proceeds from exercise of stock options	332,984	1,290,189
Proceeds from exercise of warrants	2,514,870	107,143
Proceeds from stock issuances, net	2,359,792	—
Net cash provided by financing activities	7,707,646	9,639,019
Effect of exchange rate on cash	(11,309)	(36,142)
Change in cash	797,244	(648,775)
Cash and cash equivalents at beginning of period	1,989,395	3,905,460
Cash and cash equivalents at end of period	$ 2,786,639	$ 3,256,685
Supplemental disclosures:		
Interest paid	$ —	$ 394,414
Cash paid for income taxes	$ 1,025,327	$ 1,585,508
Non cash activities:		
Stock issued for purchases of businesses	$10,982,551	$ 8,864,388
Change in goodwill	$ —	$ (493,334)

See accompanying notes to interim unaudited condensed consolidated financial statements.

PERFICIENT, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Perficient, Inc. (the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States and are presented in accordance with the rules and regulations of the Securities and Exchange Commission applicable to interim financial information. Accordingly, certain footnote disclosures have been condensed or omitted. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto filed with the Securities and Exchange Commission in the Company's annual report on Form 10-KSB for the year ended December 31, 2004, as amended. Operating results for the three months and nine months ended September 30, 2005 may not be indicative of the results for the full fiscal year ending December 31, 2005.

2. Summary of Significant Accounting Policies

Stock-Based Compensation

Statement of Financial Accounting Standards ("SFAS") No. 123, *Accounting for Stock-Based Compensation*, prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options. As allowed by SFAS No. 123, the Company has elected to account for its employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting For Stock Issued To Employees*, and ("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 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 three months and nine months ended September 30, 2004 and 2005, respectively: risk free interest rate of 2.98% and 3.61%; dividend yield of 0%; weighted-average expected life of options of 5 years; and a volatility factor of 1.515 and 1.384.

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 assumptions used in the valuation models can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a single reliable measure of the fair value of its stock options.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Net Income — as reported	$ 1,146,089	$ 2,065,865	$ 2,576,630	$ 5,180,979
Total stock-based compensation costs included in the determination of net income, as reported, net of tax	1,845	44,994	26,613	117,757
The stock-based employee compensation costs that would have been included in the determination of net income if the fair value based method had been applied to all awards, net of tax	(315,351)	(532,836)	(825,554)	(1,587,903)
Pro forma net income	$ 832,583	$ 1,578,023	$ 1,777,689	$ 3,710,833
Earnings per share:				
Basic — as reported	$ 0.06	$ 0.09	$ 0.15	$ 0.24
Basic — pro forma	$ 0.04	$ 0.07	$ 0.10	$ 0.18
Diluted — as reported	$ 0.05	$ 0.08	$ 0.13	$ 0.21
Diluted — pro forma	$ 0.04	$ 0.06	$ 0.09	$ 0.15

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: (i) persuasive evidence of the customer arrangement exists, (ii) fees are fixed and determinable, (iii) acceptance has occurred, and (iv) 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 (i) such services are available from other vendors and (ii) we have sufficient experience in providing such services.

Intangible Assets

Intangible assets, primarily resulting from purchased business combinations, are being amortized using the straight-line method with a life of two to five years for non-compete agreements, a life of three to eight years for customer relationship intangibles and a life of six months to one year for customer backlog. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ("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. We capitalize external and internal costs incurred for modifications to enhance internally used software in accordance with SOP 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. We amortize these costs using the straight-line method with a life of five years.

Use of Estimates

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

3. Segment Information

The Company operates as a single segment. The Company's Chief Executive Officer and Chairman of the Board is considered the Company's chief operating decision maker. The chief operating decision maker allocates resources and assesses performance of the business and other activities at the consolidated level.

4. Net Income Per Share

The following table presents the calculation of basic and diluted net income per share:

	Three months ending September 30,		Nine months ending September 30,	
	2004	2005	2004	2005
Net income	$ 1,146,089	$ 2,065,865	$ 2,576,630	$ 5,180,979
Basic:				
Weighted-average shares of common stock outstanding	18,275,616	21,168,056	16,421,481	20,538,439
Weighted-average shares of common stock outstanding subject to contingency (i.e. restricted stock)	952,257	1,250,042	592,098	1,164,647
Shares used in computing basic net income per share	19,227,873	22,418,098	17,013,579	21,703,086
Effect of dilutive securities:				
Stock options	2,510,433	2,932,680	2,662,470	3,181,306
Warrants	105,821	153,206	228,306	149,994
Shares used in computing diluted net income per share	21,844,127	25,503,984	19,904,355	25,034,386
Basic net income per share	$ 0.06	$ 0.09	$ 0.15	$ 0.24
Diluted net income per share	$ 0.05	$ 0.08	$ 0.13	$ 0.21

5. Commitments and Contingencies

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

	Operating Leases
2005 remaining	$ 424,805
2006	1,301,445
2007	741,620
2008	318,598
2009	229,636
Thereafter	—
Total minimum lease payments	$ 3,016,104

Table of Contents

6. Balance Sheet Components

The components of accounts receivable are as follows:

	December 31, 2004	September 30, 2005
Accounts receivable	$12,426,107	$17,821,932
Unbilled revenue	8,277,573	9,110,850
Allowance for doubtful accounts	(654,180)	(518,295)
Total	$20,049,500	$26,414,487

The components of other current liabilities are as follows:

	December 31, 2004	September 30, 2005
Accrued bonuses	$ 2,094,987	$ 2,742,996
Accrued vacation	395,127	364,831
Other payroll liabilities	714,049	166,785
Sales and use taxes	221,249	206,488
Accrued income taxes	170,354	1,121,739
Other accrued expenses	1,702,853	1,225,965
Accrued acquisition costs	317,982	1,081,948
Accrued subcontractor fees	510,018	1,293,434
Deferred revenue	624,349	970,788
Total	$ 6,750,968	$ 9,174,974

Property and equipment consist of the following:

	December 31, 2004	September 30, 2005
Computer Hardware & Software	$ 2,506,699	$ 3,073,383
Furniture & Fixtures	726,570	763,269
Leasehold Improvements	125,797	132,802
	3,359,066	3,969,454
less: Accumulated Depreciation	(2,553,235)	(2,996,453)
Total	$ 805,831	$ 973,001

7. Comprehensive Income (unaudited)

The components of comprehensive income are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Net income	$ 1,146,089	$ 2,065,865	$ 2,576,630	$ 5,180,979
Foreign currency translation adjustments	5,843	6,432	(11,309)	(23,103)
Total comprehensive net income	$ 1,151,932	$ 2,072,297	$ 2,565,321	$ 5,157,876

8. 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 tangible net 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	
Accounts receivable	1.2
Other current assets	0.1
Property and equipment	0.1
Accounts payable and accrued expenses	(0.4)
Deferred income tax liability	(1.0)
Income tax payable	(0.3)
Net assets acquired	$ 8.8

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

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.

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 $6.9 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		0.4
Goodwill		6.9
Tangible Assets and Liabilities Acquired:		
Accounts receivable		2.2
Property and equipment		0.1
Accounts payable and accrued expenses		(1.0)
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 or intends to vacate under the approved facilities exit plan. The estimated costs of vacating these leased facilities, including estimated costs to sub-lease, and sub-lease income were based on market information and trend analysis as estimated by the Company. It is reasonably possible that actual results could differ from these estimates in the near term. The Company has accrued severance of $0.2 million, which relate to severance and related payroll taxes for certain employees of Meritage impacted by the approved plan of termination. The Company acquired deferred tax assets of approximately $1.9 million. These assets primarily relate to net losses incurred by Meritage prior to the acquisition. The Company has placed a $1.5 million valuation allowance on these assets given the level of cumulative historical losses for both Meritage and the Company.

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. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved such as the collectibility of acquired accounts receivable. The results of the ZettaWorks operations have been included in the Company’s consolidated financial statements since December 20, 2004.

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
Tangible Assets and Liabilities Acquired:	
Accounts receivable	2.9
Property and equipment	0.1
Accounts payable and accrued expenses	(1.2)
Net assets acquired	$ 11.4

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

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 net assets 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 $7.2 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 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 such as the collectibility of acquired accounts receivable. 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	7.2
Tangible Assets Acquired:	
Accounts receivable	1.6
Property and equipment	0.1
Net assets acquired	$ 9.9

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

Table of Contents

Acquisition of Vivare, LP

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 such as the collectibility of acquired accounts receivable. 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.

Table of Contents

Pro-forma Results of Operations

The following presents the unaudited pro-forma combined results of operations of the Company with Genisys, Meritage, ZettaWorks, iPath and Vivare for the three months ended September 30, 2004 and 2005 and the nine months ended September 30, 2004 and 2005, as if the acquisitions had each been completed on January 1, 2004 and on January 1, 2005, after giving effect to certain pro forma adjustments related to the amortization of acquired intangible assets, interest expense on debt incurred and shares issued in connection with the acquisitions. These unaudited pro-forma results are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2004 and on January 1, 2005 or of future results of operations of the consolidated entities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2004	2005
Revenues	$22,411,225	$27,929,118	$61,810,028	$78,394,798
Net Income	$ 1,022,344	$ 2,143,399	$ 2,365,930	$ 5,861,341
Basic Income per Share	$ 0.05	$ 0.09	$ 0.13	$ 0.26
Diluted Income per Share	$ 0.04	$ 0.08	$ 0.11	$ 0.23

9. Intangible Assets

Intangible Assets with Indefinite Lives

The changes in the carrying amount of Goodwill for the nine months ended September 30, 2005 are as follows:

Balance at December 31, 2004	$32.8 million
iPath Acquisition	7.2 million
Vivare Acquisition	6.8 million
Adjustments to Goodwill related to forfeiture of stock in purchase consideration, uncollected accounts receivable purchased, change in estimated acquisition transaction costs and tax adjustments	(0.6 million)
Balance at September 30, 2005	$46.2 million

Intangible Assets with Definite Lives

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

	December 31, 2004			September 30, 2005		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer Relationships	$ 3,000	$ (410)	$ 2,590	$ 4,820	$ (884)	$ 3,936
Non-Compete	1,950	(213)	1,737	2,073	(512)	1,561
Customer Backlog	400	(206)	194	520	(287)	233
Capitalized Costs of Internal Use Software	—	—	—	503	(43)	460
Total	$ 5,350	$ (829)	$ 4,521	$ 7,916	$ (1,726)	$ 6,190

The capitalized costs of internal use software are being amortized over the asset's useful life of five years.

10. 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.

The accounts receivable line of credit, which expires in December 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% (8.00% at September 30, 2005). As of September 30, 2005, there was $10 million outstanding under the accounts receivable line of credit and approximately $5.0 million of available borrowing capacity, excluding approximately $0.55 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 September 30, 2005 the balance outstanding under this acquisition line of credit was approximately $3.0 million. Borrowings under this acquisition line of credit bear interest equal to the average four year U.S. Treasury note yield plus 3.50% — the initial $2.5 million draw, of which $1.7 million remains outstanding, bears interest of 7.11% at September 30, 2005 and the subsequent $1.5 million draw, of which $1.3 million remains outstanding, bears interest of 6.90% at September 30, 2005. Each are repayable in thirty-six equal monthly installments beginning October 21, 2004 and April 20, 2005, respectively. The Company is entitled to make payments of accrued interest only for the first three monthly installments.

The Company is required to comply with various financial covenants under the $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 no-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 the 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 September 30, 2005, the Company was in compliance with all covenants under this credit facility.

11. Shelf Stock Offering

On March 7, 2005, the Company filed a registration statement with the Securities and Exchange Commission to register the offer and sale by the Company and certain selling stockholders of shares of the Company's common stock. Due to overall market conditions during the second quarter of 2005, the Company converted its 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, the Company has recorded approximately $943,000 of deferred offering costs (approximately $579,000 after tax, if ever expensed) in connection with the offering and has classified these costs as prepaid expenses in other non-current assets on its balance sheet. If the Company sells shares of common stock off of its shelf registration statement, the Company will net these accumulated deferred offering costs against the proceeds of the offering. If the Company does not raise funds through an equity offering off of the shelf registration statement or fails 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 substantially all of these expenses have already been paid.

12. Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), *Share-Based Payment* ("Statement 123(R)"). Statement 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values as pro forma disclosure will no longer be an alternative to financial statement recognition. Statement 123(R) is effective for us at the beginning of our fiscal year beginning January 1, 2006. We are currently assessing the impact, the amount of compensation based upon the Black-Scholes model versus a binomial model, of Statement 123(R) on our financial statements and related disclosures. Both models will increase compensation expense related to past grants which are not fully vested as of December 31, 2005 and all future grants.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements made in this Report on Form 10-Q, including without limitation this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may sometimes be identified by such words as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. We believe that it is important to communicate our future expectations to investors. However, these forward-looking statements involve many risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking statements as a result of certain factors, including but not limited to, those set forth under Risk Factors and elsewhere in this Report on Form 10-Q. We are under no duty to update any of the forward-looking statements after the date of this Report on Form 10-Q to conform these statements to actual results.

Overview

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

Services Revenue

Our services revenue is derived from professional services performed developing, implementing, integrating, automating and extending business processes, technology infrastructure and software applications. Most of our projects are performed on a time and materials basis, and a smaller amount of revenue is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 7.6% and 9.9% of our services revenue for the three and nine months ended September 30, 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 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*. 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 portion of our revenue is derived from sales of third-party software, particularly IBM WebSphere® products, and from sales of internally developed software. In accordance with EITF 99-19, *Reporting Revenue Gross as a Principal versus Net as an Agent*, revenue from sales of third-party software is recorded on a gross basis provided we act as a 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 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 and from year to year 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 software 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: (i) persuasive evidence of the customer arrangement exists, (ii) fees are fixed and determinable, (iii) acceptance has occurred, and (iv) 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 (i) such services are available from other vendors and (ii) we have sufficient experience in providing such services.

Cost of Revenue

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

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. For more than the past two 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, 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. Such stock compensation is generally expensed across the vesting periods of the related equity grants. We work to minimize selling costs by focusing on repeat business with existing customers and by accessing sales leads generated by our software company partners, most notably IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our selling costs and sales cycle times and increase win rates through leveraging our partners’ marketing efforts and endorsements.

Quarterly Fluctuations

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

Plans for Growth & Acquisitions

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

Consistent with our strategy of growth through disciplined acquisitions, since January 1, 2004 we have consummated five acquisitions: Genisys Consulting, Inc. (“Genisys”) on April 2, 2004; Meritage Technologies, Inc. (“Meritage”) on June 18, 2004; ZettaWorks LLC (“Zettaworks”) on December 20, 2004; iPath Solutions, Ltd. (“iPath”) on June 10, 2005; and Vivare LP (“Vivare”) on September 2, 2005. The operating results of these businesses have been included in our consolidated operating results from the respective dates of acquisition. They significantly affected the comparability of our 2005 operating results to those of prior years, and they will continue to affect the comparability of our results in 2005, when they are included in our operating results for the full year.

Results of Operations

Three months ended September 30, 2005 compared to three months ended September 30, 2004

Revenue. Total revenue increased 49% to $26.1 million for the three months ended September 30, 2005 from $17.5 million for the three months ended September 30, 2004. Services revenue increased 72% to $23.2 million for the three months ended September 30, 2005 from approximately $13.5 million for the three months ended September 30, 2004. The increase in services revenue resulted from increases in average project size and number of projects. These increases were largely attributable to the acquisitions of ZettaWorks, iPath and Vivare. The utilization rate of our professionals, excluding subcontractors also increased to 88% for the three months ended September 30, 2005 from 86% for the three months ended September 30, 2004. For the three months ended September 30, 2005 and 2004, 8% and 17%, respectively, of our revenue was derived from IBM. Software revenue decreased 43% to $1.9 million for the three months ended September 30, 2005 from $3.4 million for the three months ended September 30, 2004 due to increased customer demand. Reimbursable expenses increased 55% to $1.0 million for the three months ended September 30, 2005 from $0.7 million for the three months ended September 30, 2004. We do not realize any profit on reimbursable expenses.

Cost of Revenue. Cost of revenue increased 42% to $16.8 million for the three months ended September 30, 2005 from $11.8 million for the three months ended September 30, 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 447 for the three months ended September 30, 2005 from 275 for the three months ended September 30, 2004.

Also, costs associated with software sales decreased 48% to $1.5 million for the three months ended September 30, 2005 in connection with the increased software revenue.

Gross Margin. Gross margin increased 64% to $9.3 million for the three months ended September 30, 2005 from $5.7 million for the three months ended September 30, 2004. Gross margin as a percentage of revenue, excluding reimbursed expenses, increased to 37.1% for the three months ended September 30, 2005 from 33.7% for the three months ended September 30, 2004. The increase in gross margin as a percentage of revenue is primarily due to the decrease in software sales revenue in proportion to total revenue, which typically yields a lower margin than our services revenue. Services gross margin decreased slightly to 38.4% for the three months ended September 30, 2005 from 38.6% for the three months ended September 30, 2004. Services gross margins remained relatively constant as lower gross margins on consulting services contracts acquired in the acquisition of ZettaWorks were offset by higher gross margins from the acquisition of iPath and higher utilization for the quarter. Software gross margin increased to 21.6% for the three months ended September 30, 2005 from 14.1% for the three months ended September 30, 2004 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 50% to $5.1 million for the three months ended September 30, 2005 from $3.4 million for the three months ended September 30, 2004 due primarily to the increases in sales personnel, management personnel, support personnel and facilities related to the acquisitions of ZettaWorks, iPath and Vivare. However, selling, general and administrative expenses as a percentage of services revenue, including reimbursed expenses, decreased to 21.1% for the three months ended September 30, 2005 compared to 24.0% for the three months ended September 30, 2004. The decrease in selling, general and administrative expenses as a percentage of revenue is the result of leveraging operating efficiencies and scalability of the back office.

Depreciation. Depreciation expense increased 7% to $148,870 for the three months ended September 30, 2005 from $138,718 for the three months ended September 30, 2004. The increase is due to general purchases of fixed assets along with an increasing number of fully depreciated assets.

Intangibles Amortization. Intangibles amortization expenses, arising from acquisitions, increased 111% to $493,522 for the three months ended September 30, 2005 from $233,541 for the three months ended September 30, 2004. The increase in amortization expense reflects the acquisition of intangibles acquired from Genisys, Meritage, ZettaWorks, iPath and Vivare as well as the amortization of capitalized costs associated with internal use software.

Interest Expense. Interest expense increased 285% to $203,765 for the three months ended September 30, 2005 compared to $52,983 for the three months ended September 30, 2004. This increase in interest expense is due to interest expense now being incurred on the newly funded acquisition line of credit that was drawn down in connection with the acquisitions of Meritage in June 2004, ZettaWorks in December 2004, iPath in June 2005 and Vivare in September 2005.

Provision for Income Taxes. We accrue a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our tax provision rate remained relatively constant at 38.5% for the three months ended September 30, 2005 as compared to 39.1% for the three months ended September 30, 2004. We have deferred tax assets resulting from net operating losses and capital loss carry forwards of acquired companies amounting to approximately $2.9 million for which we have a valuation allowance of $2.4 million. Additionally, we have deferred tax assets of $0.6 million related to fixed assets, reserves and accruals. Deferred tax assets net of the valuation allowance total $1.1 million and are partially offset by deferred tax liabilities of $0.7 million related to identifiable intangibles and cash to accrual adjustments from prior acquisitions. 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 and capital loss carry forwards 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.

Nine months ended September 30, 2005 compared to nine months ended September 30, 2004

Revenue. Total revenue increased 81% to $67.5 million for the nine months ended September 30, 2005 from $37.2 million for the nine months ended September 30, 2004. Services revenue increased 102% to $60.0 million for the nine months ended September 30, 2005 from approximately $29.8 million for the nine months ended September 30, 2004. The increase in services revenue resulted from increases in average project size and number of projects. These increases were largely attributable to the acquisitions of Genisys, Meritage, ZettaWorks, iPath and Vivare. The utilization rate of our professionals, excluding subcontractors also increased to 86% for the nine months ended September 30, 2005 from 82% for the nine months ended September 30, 2004. For the nine months ended September 30, 2005 and 2004, 9% and 24%, respectively, of our revenue was derived from IBM. Software revenue decreased 19% to $4.7 million for the nine months ended September 30, 2005 from $5.8 million for the nine months ended September 30, 2004 due to reduced customer demand. Reimbursable expenses increased 65% to $2.7 million for the nine months ended September 30, 2005 from $1.7 million for the nine months ended September 30, 2004. We do not realize any profit on reimbursable expenses.

Cost of Revenue. Cost of revenue increased 80% to $44.2 million for the nine months ended September 30, 2005 from $24.5 million for the nine months ended September 30, 2004. 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, ZettaWorks, iPath and Vivare. The average number of professionals performing services, including subcontractors, increased to 408 for the nine months ended September 30, 2005 from 193 for the nine months ended September 30, 2004. Costs associated with software sales decreased 21% to $3.9 million for the nine months ended September 30, 2005 in connection with the decreased software revenue.

Gross Margin. Gross margin increased 84% to $23.3 million for the nine months ended September 30, 2005 from $12.7 million for the nine months ended September 30, 2004. Gross margin as a percentage of revenue, excluding reimbursed expenses, remained constant at 36.0% for the nine months ended September 30, 2005 compared to 35.7% for the nine months ended September 30, 2004. Services gross margin decreased to 37.4% for the nine months ended September 30, 2005 from 39.6% for the nine months ended September 30, 2004 primarily due to lower gross margins on consulting services contracts acquired in the acquisitions of Genisys, Meritage and ZettaWorks. Software gross margin increased to 17.7% for the nine months ended September 30, 2005 from 15.5% for the nine months ended September 30, 2004 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 70% to $12.9 million for the nine months ended September 30, 2005 from $7.6 million for the nine months ended September 30, 2004 due primarily to the increases in sales personnel, management personnel, support personnel and facilities related to the acquisitions of Genisys, Meritage, ZettaWorks, iPath and Vivare. However, selling, general and administrative expenses as a percentage of services revenue, including reimbursed expenses, decreased to 20.6% for the nine months ended September 30, 2005 from 24.1% for the nine months ended September 30, 2004. The decrease in selling, general and administrative expenses as a percentage of revenue is the result of leveraging operating efficiencies and scalability of the back office.

Depreciation. Depreciation expense increased 26% to $459,091 for the nine months ended September 30, 2005 from $363,593 for the nine months ended September 30, 2004. The increase is due to general purchases of fixed assets along with an increasing number of fully depreciated assets.

Intangibles Amortization. Intangibles amortization expenses, arising from acquisitions, increased 141% to approximately $1.1 million for the nine months ended September 30, 2005 from approximately $446,320 for the nine months ended September 30, 2004. The increase in amortization expense reflects the acquisition of intangibles acquired from Genisys, Meritage, ZettaWorks, iPath and Vivare as well as the amortization of capitalized costs associated with internal use software.

Interest Expense. Interest expense increased 433% to $437,533 for the nine months ended September 30, 2005 compared to $82,116 for the nine months ended September 30, 2004. This increase in interest expense is due to interest expense now being incurred on the newly funded acquisition line of credit that was drawn down in connection with the acquisitions of Meritage in June 2004, ZettaWorks in December 2004, iPath in June 2005 and Vivare in September 2005.

Provision for Income Taxes. We accrue a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our tax provision rate remained relatively constant at 38.5% for the nine months ended September 30, 2005 as compared to 39.1% for the nine months ended September 30, 2004. We have deferred tax assets resulting from net operating losses and capital loss carry forwards of acquired companies amounting to approximately $2.9 million for which we have a valuation allowance of $2.4 million. Additionally, we have deferred tax assets of $0.6 million related to fixed assets, reserves and accruals. Deferred tax assets net of the valuation allowance total $1.1 million and are partially offset by deferred tax liabilities of $0.7 million related to identifiable intangibles and cash to accrual adjustments from prior acquisitions. 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 and capital loss carry forwards 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:

	As of December 31, 2004	As of September 30, 2005
	(in millions)	
Cash and cash equivalents	$ 3.9	$ 3.3
Working capital	$ 9.2	$ 17.9

Net Cash Provided By Operating Activities

We expect to fund our operations 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 provided by operations for the nine months ended September 30, 2005 was $0.7 million as compared to net cash provided by operations of $1.7 million for the nine months ended September 30, 2004.

Accounts receivable, net of allowance for doubtful accounts, totaled $26.4 million at September 30, 2005, compared to $20.0 million at December 31, 2004. There were approximately 85 days of sales outstanding (“DSO’s”) for the quarter ended September 30, 2005 calculated using accounts receivable as of September 30, 2005, and adjusting revenues and accounts receivable to exclude non-recurring increases in sales of third party software at the end of the quarter. This compares to 88 DSO’s at June 30, 2005, 77 DSO’s at March 31, 2005, and 65 DSO’s at December 31, 2004. Approximately 75% of our customers are billed on a monthly basis. Our collection terms with IBM are 45 days and the rest of our customers generally have 30 day collection terms. With a monthly billing cycle of 30 days, a 14 day cycle for generating, approving and releasing invoices, and 30 to 45 day collection cycles, our expected DSO’s should range between 74 and 89 days. As described above, DSO’s at each quarterly period in 2005 have been within this range.

A significant amount of our revenue is derived from IBM. Accordingly, our accounts receivable generally includes significant amounts due from IBM. As of September 30, 2005, approximately 5% of our accounts receivable was due from IBM.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2005 we used $0.5 million in cash to purchase equipment fixed assets and $0.5 million in cash to invest in capitalized software developed for internal use. We also used approximately $4.8 million in cash to consummate the acquisition of iPath on June 10, 2005, including $3.9 million in cash and $0.9 million of liabilities repaid on behalf of iPath and we used approximately $4.95 million in cash to consummate the acquisition of Vivare on September 2, 2005.

Net Cash From Financing Activities

Our financing activities consisted primarily of a net draw of $10 million from our accounts receivable line of credit, approximately $1.4 million from stock option and warrant exercises, and approximately $0.8 million of payments on long term debt during the nine months ended September 30, 2005. We also repaid approximately $0.9 million, representing all amounts outstanding, on a bank line of credit assumed as a part of the iPath acquisition and repaid approximately $0.3 million on notes related to the Javelin acquisition.

At September 30, 2005, we had $3.3 million in cash and cash equivalents.

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 $943,000 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 off of 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 off of 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 substantially all of these expenses have already been paid.

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 term line of credit. Borrowings under the accounts receivable line of credit bear interest at the bank's prime rate plus 1.25%, or 8.00%, as of September 30, 2005. As of September 30, 2005, there was $10.0 million outstanding under the accounts receivable line of credit and approximately $5.0 million of available borrowing capacity, excluding approximately $0.55 million reserved for two outstanding letters of credit to secure facility leases.

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 September 30, 2005 the balance outstanding under this acquisition line of credit was approximately $3.0 million. Borrowings under this acquisition line of credit bear interest equal to the average four year U.S. Treasury note yield plus 3.50%—the initial $2.5 million draw, of which $1.7 million remains outstanding, bears interest of 7.11% at September 30, 2005 and the subsequent $1.3 million draw, of which $1.3 million remains outstanding, bears interest of 6.90% at September 30, 2005. Each are repayable in thirty-six equal monthly installments beginning October 21, 2004 and April 20, 2005, respectively. We are entitled to make payments of accrued interest only for the first three monthly installments.

As of September 30, 2005, we were in compliance with all covenants under this credit facility and we expect to be in compliance during the next twelve months.

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.

Critical Accounting Policies

Revenue Recognition and Allowance for Doubtful Accounts

Consulting revenues are comprised of revenue from professional services fees recognized primarily on a time and materials basis as performed. For fixed fee engagements, revenue is recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. Our normal payment terms are net 30 days. Our agreement with IBM provides for net 45 days payment terms. Reimbursements for out-of-pocket expenses are included in gross revenue. Revenue from the sale of third-party software is recorded on a gross basis provided that we act as the principal in the transaction. In the event we do not meet the requirements to be considered the principal in the software sale transaction, we record the revenue on a net basis. There is no effect on net income between recording the software sales on a gross basis versus a net basis. We assess our allowance for doubtful accounts at each financial reporting date based on expected losses on uncollectible accounts receivable with known facts and circumstances for the respective period.

Goodwill and Other Intangible Assets

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

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

Accounting for Stock-Based Compensation

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

Income Taxes

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

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), *Share-Based Payment* ("Statement 123(R)"). Statement 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values as pro forma disclosure will no longer be an alternative to financial statement recognition. Statement 123(R) is effective for us at the beginning of our fiscal year beginning January 1, 2006. We are currently assessing the impact, the amount of compensation based upon the Black-Scholes model versus a binomial model, of Statement 123(R) on our financial statements and related disclosures. Both models will increase compensation expense related to past grants which are not fully vested as of December 31, 2005 and all future grants.

RISK FACTORS

You should carefully consider the following risk factors together with the other information contained in or incorporated by reference into this quarterly 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 six 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, through sales leads obtained from our relationship with IBM and through a services agreement we have with IBM. Revenue from IBM was approximately 9% and 24% of total revenue for the nine-months ended September 30, 2005 and 2004, respectively. The loss of our relationship with, or a significant reduction in the services we perform for IBM would have a material adverse effect on our business and results of operations.

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

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

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

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

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

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

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

Our 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 ten 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 off of 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 $943,000 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 off of 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 off of 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 substantially 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. The PCAOB is conducting 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 is inspecting 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.

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

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we will be required, beginning with our fiscal year ending December 31, 2005, to include in our annual report our assessment of the effectiveness of our internal control over financial reporting as of the end of fiscal 2005. Furthermore, our independent registered public accounting firm, BDO Seidman, LLP, will be required to attest to whether our assessment of the effectiveness of our internal control over financial reporting is fairly stated in all material respects and separately report on whether it believes we have maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005. We have not yet completed our assessment of the effectiveness of our internal control over financial reporting. We expect to incur additional expenses and diversion of management's time as a result of performing the system and process evaluation, testing and remediation required in order to comply with the management certification and auditor attestation requirements. If we fail to timely complete this assessment, or if our independent registered public accounting firm cannot timely attest to our assessment, we could be subject to regulatory sanctions and a loss of public confidence in our internal control. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 8.00%, as of September 30, 2005. As of September 30, 2005, there was $10.0 million outstanding under the accounts receivable line of credit and approximately $5.0 million of available borrowing capacity, excluding approximately $0.55 million 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.

We had unrestricted cash and cash equivalents totaling $3.3 million and $3.9 million at September 30, 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 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We performed an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2005.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended September 30, 2005 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In connection with our acquisition of substantially all of the assets of Vivare on September 2, 2005 we issued 618,500 shares of our common stock in partial consideration for the acquisition. The shares of common stock issued in connection with the acquisition were ascribed a value of $7.03 per share, which was the average closing price of the Company's common stock for the two trading days before and after the acquisition close date. The issuance was exempt from registration under Section 4(2) of the Securities Act of 1933.

Item 6. Exhibits

Exhibit Number	Description
2.1	Asset Purchase Agreement, dated September 2, 2005, by and among Perficient, Inc., Perficient Vivare, Inc. and Vivare, LP, 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	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
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 Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-3 (File No. 333-117216) filed on July 8, 2004 and incorporated herein by reference
10.1*	Perficient, Inc. Amended and Restated 1999 Stock Option / Stock Issuance Plan
31.1*	Certification by the Chief Executive Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Description
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

* Filed herewith.

† Included but not to be considered "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

SIGNATURES

Pursuant to the requirements 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.
Dated: November 14, 2005	/s/ JOHN T. MCDONALD
	John T. McDonald, Chief Executive Officer (Principal Executive Officer)
Dated: November 14, 2005	/s/ MICHAEL D. HILL
	Michael D. Hill, Chief Financial Officer (Principal Financial and Accounting Officer)

EXHIBITS INDEX

Exhibit Number	Description
2.1	Asset Purchase Agreement, dated September 2, 2005, by and among Perficient, Inc., Perficient Vivare, Inc. and Vivare, LP, 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
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EXHIBIT 10.1

PERFICIENT INC.
AMENDED AND RESTATED
1999 STOCK OPTION/STOCK ISSUANCE PLAN

ARTICLE I
GENERAL PROVISIONS

1.1 Purpose of the Plan

The 1999 Stock Option/Stock Issuance Plan was adopted on May 3, 1999 for the purpose of promoting the interests of Perficient Inc., a Delaware corporation, by providing eligible persons with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation. This amendment and restatement makes certain changes to incorporate various amendments made to the Plan by the Board since the Plan's adoption, including certain amendments approved by the shareholders of the Corporation.

Unless otherwise indicated, capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

1.2 Structure of the Plan

(a) The Plan shall be divided into three separate equity programs:

(i) the Discretionary Option and SAR Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock and/or stock appreciation rights ("SARs");

(ii) the Stock Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued shares of Common Stock directly, either through the immediate purchase of such shares or as a bonus for services rendered to the Corporation (or any Parent or Subsidiary); and

(iii) the Automatic Option Grant Program under which eligible Board members and members of the Board serving on the Compensation Committee or Audit Committee shall automatically receive options to purchase shares of Common Stock.

(b) The provisions of Articles One and Five shall apply to all equity programs under the Plan and shall govern the interests of all persons under the Plan.

1.3 Administration of the Plan

(a) Prior to the Section 12 Registration Date, the Discretionary Option and SAR Grant and Stock Issuance Programs shall be administered by the Board. Beginning with the Section 12 Registration Date, the following provisions shall govern the administration of the Plan:

(i) The Board shall have the authority to administer the Discretionary Option and SAR Grant, Stock Issuance and Automatic Option Grant Programs with respect to Section 16 Insiders but may delegate such authority in whole or in part to the Primary Committee;

(ii) Administration of the Discretionary Option and SAR Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons; and

(iii) To the extent the Automatic Option Grant Program is not self-executing in accordance with the terms of that program, administration of the Automatic Option Grant Program may at the Board's discretion be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer the program.

(b) Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full power and authority subject to the provisions of the Plan:

(i) to establish such rules as it may deem appropriate for proper administration of the Plan, to make all factual determinations, to construe and interpret the provisions of the Plan and the awards thereunder and to resolve any and all ambiguities thereunder;

(ii) to determine, with respect to awards made under the Discretionary Option and SAR Grant and Stock Issuance Programs, which eligible persons are to receive such awards, the time or times when such awards are to be made, the number of shares to be covered by each such award, the vesting schedule (if any) applicable to the award, the status of a granted option as either an Incentive Option or a Non-Statutory Option and the maximum term for which the award is to remain outstanding;

(iii) to amend, modify or cancel any outstanding award with the consent of the holder or accelerate the vesting of such award; and

(iv) to take such other discretionary actions as permitted pursuant to the terms of the applicable program.

Decisions of each Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties.

(c) Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

(d) Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any options or stock issuances under the Plan.

1.4 Eligibility

(a) The persons eligible to participate in the Discretionary Option and SAR Grant and Stock Issuance Programs are as follows:

(i) Employees;

(ii) non-employee members of the Board or the board of directors of any Parent or Subsidiary; and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

(b) Board members and members of the Audit Committee and/or Compensation Committee shall be eligible to participate in the Automatic Option Grant Program.

1.5 Stock Subject to the Plan

(a) The stock issuable in the aggregate under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock reserved for issuance in the aggregate over the term of the Plan and upon exercise of options granted prior to the adoption of the Plan (the "Prior Options") shall not exceed 5,346,085 shares; provided, however, that the number of shares of Common Stock reserved for issuance under the Plan shall automatically increase on the first trading day of January each calendar year, beginning in calendar year 2003, by an amount equal to eight percent (8%) of the total number of shares of Common Stock outstanding on the last trading day in December of the preceding calendar year but in no event will any such annual increase exceed 1,000,000 shares of Common Stock.

(b) No one person participating in the Plan may receive options, SARs and direct stock issuances for more than 600,000 shares of Common Stock in the aggregate in any calendar year.

However, should the exercise price of an option under the Plan or a Prior Option be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan or upon exercise of a Prior Option be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option or the vesting of a stock issuance under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised or which vest under the stock issuance, and not by the net number of shares of Common Stock issued to the holder of such option or stock issuance. Shares of Common Stock underlying one or more SARs exercised under the Plan shall not be available for subsequent issuance.

(c) Shares of Common Stock subject to outstanding options under the Plan and the Prior Options shall be available for subsequent issuance under the Plan to the extent those options expire, terminate or are cancelled for any reason prior to exercise in full. Unvested shares issued under the Plan and subsequently repurchased by the Corporation, at the original exercise or issue price paid per share, pursuant to the Corporation's repurchase rights, if any, under the Plan shall be added back to the number of shares of Common Stock reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent options or direct stock issuances under the Plan.

(d) If any change is made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the number and/or class of securities for which any one person may be granted options, SARs and direct stock issuances under this Plan per calendar year, (iii) the number and/or class of securities for which grants are subsequently to be made under the Automatic Option Grant Program to new and continuing eligible Board members and (iv) the number and/or class of securities and the exercise price per share in effect under each outstanding option under the Plan. Such adjustments to the outstanding options are to be effected in a manner which shall preclude the enlargement or dilution of rights and benefits under such options. The adjustments determined by the Plan Administrator shall be final, binding and conclusive. In no event shall any such adjustments be made in connection with the conversion of one or more outstanding shares of the Corporation's preferred stock into shares of Common Stock.

ARTICLE II
DISCRETIONARY OPTION AND SAR GRANT PROGRAM

2.1 Option Terms

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

(a) **Exercise Price**

(i) The exercise price per share shall be fixed by the Plan Administrator at the time of the option grant.

(ii) The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section 5.2 of Article V and the documents evidencing the option, be payable in cash or check made payable to the Corporation. Should the Common Stock be registered under Section 12 of the 1934 Act at the time the option is exercised, then the exercise price may also be paid as follows:

(A) shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date; or

(B) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions to (1) a Corporation-approved brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (2) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

(b) **Exercise and Term of Options**. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

(c) **Cessation of Service**

(i) The following provisions shall govern the exercise of any options outstanding at the time of the Optionee's cessation of Service or death:

(A) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term;

(B) Any option exercisable in whole or in part by the Optionee at the time of death may be subsequently exercised by his or her Beneficiary;

(C) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Service, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares;

(D) Should the Optionee's Service be terminated for Misconduct or should the Optionee engage in Misconduct while his or her options are outstanding, then all such options shall terminate immediately and cease to be outstanding.

(ii) The Plan Administrator shall have complete discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding:

(A) to extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service to such period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term; and/or

(B) to permit the option to be exercised, during the applicable post-Service exercise period, for one or more additional installments in which the Optionee would have vested had the Optionee continued in Service.

(d) **Stockholder Rights**. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

(e) **Repurchase Rights**. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

(f) **Limited Transferability of Options**. During the lifetime of the Optionee, Incentive Options shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the

Optionee’s death. Non-Statutory Options shall be subject to the same restrictions, except that a Non-Statutory Option may, to the extent permitted by the Plan Administrator, be assigned in whole or in part during the Optionee’s lifetime (i) as a gift to one or more members of the Optionee’s immediate family, to a trust in which Optionee and/or one or more such family members hold more than fifty percent (50%) of the beneficial interest or to an entity in which more than fifty percent (50%) of the voting interests are owned by one or more such family members, or (ii) pursuant to a domestic relations order. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

2.2 Incentive Options

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section 2.2, all the provisions of Articles I, II and V shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section 2.2.

(a) **Eligibility**. Incentive Options may only be granted to Employees.

(b) **Exercise Price**. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

(c) **Dollar Limitation**. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one calendar year shall not exceed the sum of one hundred thousand dollars ($100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

(d) **10% Stockholder**. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

2.3 Stock Appreciation Rights

The Plan Administrator may, subject to such conditions as it may determine, grant stock appreciation rights (“SARs”) to selected persons eligible to participate in the Discretionary Option and SAR Grant Program. Each SAR shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Except as modified by the provisions of this Section 2.3, all the provisions of Articles I, II and V shall be applicable to SARs.

(a) **Rights Related to SARs Granted with Option.** A SAR granted in connection with an option shall entitle the Optionee to elect between the exercise of the underlying option for shares of Common Stock and the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (i) the Option Surrender Value of the number of fully-vested shares for which the option is surrendered over (ii) the aggregate exercise price payable for such shares. The distribution may be made in shares of Common Stock valued at Fair Market Value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

(b) **Rights Related to SARs Granted Without Option.** A SAR granted independent of an option shall be exercisable as determined by the Plan Administrator and set forth in the document evidencing the grant, which shall comply with the following provisions:

(i) Each grant shall state the time or periods in which the right to exercise the SAR or a portion thereof shall vest and the number of shares of Common Stock for which the right to exercise the SAR shall vest at each such time or period.

(ii) Each grant shall state the date at which the SAR shall expire if not previously exercised.

(iii) Each grant shall entitle a Participant, upon exercise thereof, to receive payment of an amount determined by multiplying:

(A) the difference obtained by subtracting the Fair Market Value of a share of Common Stock on the date of grant of the SAR from the Fair Market Value of a share of Common Stock on the date of exercise of that SAR, by

(B) the number of shares as to which the SAR has been exercised.

(c) **SAR Terms.** The Plan Administrator shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which an SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement (including, but not limited to, cash or Common Stock), method by or forms in which Common Stock will be delivered or deemed to be delivered to Participants, whether or not an SAR shall be in tandem or in combination with any other award, and any other terms and conditions of any SAR. SARs may be either freestanding or in tandem with other awards.

2.4 Change in Control

(a) Subject to the terms of an employment or similar agreement, the Board may at any time (i) provide that an option or SAR outstanding at the time of a Change in Control, but not otherwise fully-vested, shall automatically accelerate so that such option or SAR shall vest and become exercisable in full immediately prior to the effective date of the Change in Control, and/or (ii) provide that such option or SAR shall be assumed or otherwise continued in full force and effect by the successor corporation (or parent thereof) pursuant to the terms of the Change in Control.

(b) Subject to the terms of an employment or similar agreement, the Plan Administrator may at any time (i) provide that the Corporation’s repurchase rights shall terminate, and the shares of Common Stock subject to such terminated repurchase rights shall immediately vest in full, or (ii) provide that the Corporation's repurchase rights be assigned to the successor corporation (or parent thereof) or otherwise continue in full force and effect pursuant to the terms of the Change in Control.

(c) Immediately following the consummation of the Change in Control, all outstanding options and SARs shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof) or otherwise expressly continued in full force and effect pursuant to the terms of the Change in Control.

(d) Each option or SAR which is assumed in connection with a Change in Control shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities to which the option or SAR would have applied had the option or SAR been exercised immediately prior to such Change in Control. Appropriate adjustments to reflect such Change in Control shall also be made to (i) the exercise price payable per share under each outstanding option or SAR, provided the aggregate exercise price payable for such securities shall remain the same, (ii) the maximum number and/or class of securities available for issuance over the remaining term of the Plan and (iii) the maximum number and/or class of securities for which any one person may be granted options, SARs and direct stock issuances under the Plan per calendar year.

(e) The Plan Administrator may at any time provide that one or more options or SARs will automatically accelerate upon an Involuntary Termination of the Optionee's or Participant's Service within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control in which those options or SARs do not otherwise accelerate. Any options so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of the option term, and (ii) the expiration of the one (l)-year period measured from the effective date of the Involuntary Termination. In addition, the Plan Administrator may at any time provide that one or more of the Corporation's repurchase rights shall immediately terminate upon such Involuntary Termination.

(f) The portion of any Incentive Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable one hundred thousand dollar ($100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

ARTICLE III
STOCK ISSUANCE PROGRAM

3.1 Stock Issuance Terms

Shares of Common Stock may be issued under the Stock Issuance program through direct and immediate issuances without any intervening options. Shares of Common Stock may also be issued under the Stock Issuance Program pursuant to share right awards which entitle the recipients to receive those shares upon the attainment of designated performance goals or Service requirements. Each such award shall be evidenced by one or more documents which shall comply with the terms specified below.

(a) **Purchase Price**

(i) The purchase price per share of Common Stock subject to direct issuance shall be fixed by the Plan Administrator.

(ii) Subject to the provisions of Section 5.2 of Article V, Shares of Common Stock may be issued under the Stock Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

(A) cash or check made payable to the Corporation, or

(B) past services rendered to the Corporation (or any Parent or Subsidiary).

(b) **Vesting/Issuance Provisions**

(i) The Plan Administrator may issue shares of Common Stock which are fully and immediately vested upon issuance or which are to vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. Alternatively, the Plan Administrator may issue share right awards which shall entitle the recipient to receive a specified number of vested shares of Common Stock upon the attainment of one or more performance goals or Service requirements established by the Plan Administrator.

(ii) Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to his or her unvested shares of Common Stock by reason of any stock dividend, stock split, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration shall be issued subject to (A) the same vesting requirements applicable to the Participant's unvested shares of Common Stock and (B) such escrow arrangements as the Plan Administrator shall deem appropriate.

(iii) The Participant shall have full stockholder rights with respect to the issued shares of Common Stock, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares.

(iv) Should the Participant cease to remain in Service while holding one or more unvested shares of Common Stock, or should the performance objectives not be attained with respect to one or more such unvested shares of Common Stock, then those shares shall be immediately surrendered to the Corporation for cancellation, and the Participant shall have no further stockholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Corporation shall repay to the Participant the cash consideration paid for the surrendered shares and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to the surrendered shares.

(v) The Plan Administrator may waive the surrender and cancellation of one or more unvested shares of Common Stock (or other assets attributable thereto) which would otherwise occur upon the cessation of the Participant's Service or the non-attainment of the performance objectives applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the shares of Common Stock as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

(vi) Outstanding share right awards shall automatically terminate, and no shares of Common Stock shall actually be issued in satisfaction of those awards, if the performance goals or Service requirements established for such awards are not attained. The Plan Administrator, however, shall have the authority to issue shares of Common Stock in satisfaction of one or more outstanding share right awards as to which the designated performance goals or Service requirements are not attained.

3.2 Change in Control

(a) Subject to the terms of an employment or similar agreement, the Plan Administrator may at any time provide that in the event of a Change in Control (i) the Corporation's outstanding repurchase rights shall terminate automatically, and all the shares of Common Stock subject to those terminated rights shall immediately vest in full or (ii) the Corporation's outstanding repurchase rights shall be assigned to the successor corporation (or parent thereof) or otherwise continue in full force and effect pursuant to the terms of the Change in Control.

(b) The Plan Administrator may at any time provide for the automatic termination of one or more outstanding repurchase rights and the immediate vesting of the shares of Common Stock subject to those terminated repurchase rights in the event of the Involuntary Termination of the Participant's Service within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control in which those repurchase rights are assigned to the successor corporation (or parent thereof) or otherwise continue in full force and effect.

3.3 Share Escrow/Legends

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Corporation until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

ARTICLE IV
AUTOMATIC OPTION GRANT PROGRAM

4.1 Option Terms

(a) **Grant Dates**. Options shall be made on the dates specified below:

(i) Each individual who is first elected or appointed as a Board member shall automatically be granted, on the date of such initial election or appointment, a Non-Statutory Option to purchase 15,000 shares of Common Stock which shall vest and become exercisable with respect to the shares of Common Stock subject to the option in three equal annual installments beginning on the first anniversary of the date of grant;

(ii) On the date of each Annual Stockholders Meeting, each individual who is to continue to serve as a non-employee Board member, whether or not that individual is standing for re-election to the Board, shall automatically be granted a fully vested Non-Statutory Option to purchase 5,000 shares of Common Stock;

(iii) Notwithstanding the foregoing, on the date of each Annual Stockholders Meeting, the chairman of the Audit Committee shall automatically be granted a fully vested Non-Statutory Option to purchase 5,000 shares of Common Stock; and

(iv) Notwithstanding the foregoing, on the date of each Annual Stockholders Meeting, each Board member serving on a committee of the Board shall automatically be granted a fully vested Non-Statutory Option to purchase 5,000 shares of Common Stock.

(b) **Exercise Price**

(i) The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

(ii) The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option and SAR Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

(c) **Option Term**. Each option shall have a term of ten (10) years measured from the option grant date.

(d) **Exercise of Options**. Each option shall be exercisable for the option shares as, if and when such shares become vested shares.

(e) **Cessation of Board Service**. The following provisions shall govern the exercise of any options outstanding at the time of the Optionee’s cessation of Board Service:

(i) Any vested option outstanding at the time of the Optionee’s cessation of Board service for any reason shall remain exercisable for a twelve (12)-month period following the date of such cessation of Board service, but in no event shall such option be exercisable after the expiration of the option term.

(ii) Any vested option exercisable in whole or in part by the Optionee at the time of death may be subsequently exercised by his or her Beneficiary.

(iii) Any unvested options will terminate and be null and void upon the Optionee's cessation of Board Service.

(iv) Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised.

4.2 Remaining Terms

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for Non-Statutory Options granted under the Discretionary Option and SAR Grant Program.

ARTICLE V
MISCELLANEOUS

5.1 No Impairment of Authority

Outstanding awards shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

5.2 First Refusal Right

Until the Section 12 Registration Date, the Corporation shall have the right of first refusal with respect to any proposed disposition by the Optionee or the Participant (or any successor in interest) of any shares of Common Stock issued under the Plan. Such right of first refusal shall be exercisable in accordance with the terms established by the Plan Administrator and set forth in the document evidencing such right.

5.3 Financing

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Option and SAR Grant Program or the purchase price of shares issued under the Stock Issuance Program by delivering a full-recourse, interest bearing promissory note payable in one or more installments. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. In no event may the maximum credit available to the Optionee or Participant exceed the sum of (a) the aggregate option exercise price or purchase price payable for the purchased shares plus (b) any Federal, state and local income and employment tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

5.4 Tax Withholding

(a) The Corporation’s obligation to deliver shares of Common Stock upon the exercise of options or the issuance or vesting of such shares under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

(b) The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options or unvested shares of Common Stock under the Plan with the right to use shares of Common Stock in satisfaction of all or part of the Withholding Taxes incurred by such holders in connection with the exercise of their options or the vesting of their shares. Such right may be provided to any such holder in either or both of the following formats:

> STOCK WITHHOLDING: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option or the vesting of such shares, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Withholding Taxes (not to exceed one hundred percent (100%)) designated by the holder.
>
> STOCK DELIVERY: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised or the shares vest, one

or more shares of Common Stock previously acquired by such holder (other than in connection with the option exercise or share vesting triggering the Withholding Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

5.5 Effective Date and Term of the Plan

(a) The Plan became effective with respect to the Discretionary Option and SAR Grant and Stock Issuance Programs immediately upon the Plan Effective Date. The Automatic Option Grant Program shall become effective on the Underwriting Date. Options may be granted under the Discretionary Option and SAR Grant at any time on or after the Plan Effective Date. However, no options granted under the Plan may be exercised, and no shares shall be issued under the Plan, until the Plan is approved by the Corporation's stockholders. If such stockholder approval is not obtained within twelve (12) months after the Plan Effective Date, then all options previously granted under this Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan.

(b) The Plan shall terminate upon the earliest of (i) May 2, 2009, (ii) the date on which all shares available for issuance under the Plan shall have been issued as fully-vested shares or (iii) the termination of all outstanding options in connection with a Change in Control. Upon such plan termination, all outstanding options and unvested stock issuances shall thereafter continue to have force and effect in accordance with the provisions of the documents evidencing such grants or issuances.

5.6 Amendment of the Plan

(a) The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to stock options or unvested stock issuances at the time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require stockholder approval pursuant to applicable laws or regulations.

(b) Options to purchase shares of Common Stock may be granted under the Discretionary Option and SAR Grant Program and shares of Common Stock may be issued under the Stock Issuance Program that are in each instance in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs shall be held in escrow until there is obtained stockholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess issuances are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding, and (ii) the Corporation shall promptly refund to the Optionees and the Participants the exercise or purchase price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

5.7 Use of Proceeds

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

5.8 Regulatory Approvals

(a) The implementation of the Plan, the granting of any stock option under the Plan and the issuance of any shares of Common Stock (i) upon the exercise of any granted option or (ii) under the Stock Issuance Program shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the stock options granted under it and the shares of Common Stock issued pursuant to it.

(b) No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws, including the filing and effectiveness of the Form S-8 registration statement for the shares of Common Stock issuable under the Plan, and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

5.9 No Employment/Service Rights

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or the Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

APPENDIX

The following definitions shall be in effect under the Plan:

A. **Audit Committee** shall mean the Audit Committee of the Board.

B. **Automatic Option Grant Program** shall mean the automatic option grant program in effect under the Plan.

C. **Beneficiary** shall mean, in the event the Plan Administrator implements a beneficiary designation procedure, the person designated by an Optionee or Participant, pursuant to such procedure, to succeed to such person's rights under any outstanding awards held by him or her at the time of death. In the absence of such designation or procedure, the Beneficiary shall be the personal representative of the estate of the Optionee or Participant or the person or persons to whom the award is transferred by will or the laws of descent and distribution.

D. **Board** shall mean the Corporation's Board of Directors.

E. **Change in Control** shall mean a change in ownership or control of the Corporation effected through any of the following transactions:

(i) a merger, consolidation or reorganization approved by the Corporation's stockholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Corporation's outstanding voting securities immediately prior to such transaction,

(ii) any stockholder-approved transfer or other disposition of all or substantially all of the Corporation's assets, or

(iii) the acquisition, directly or indirectly by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board recommend such stockholders to accept.

F. **Code** shall mean the Internal Revenue Code of 1986, as amended.

G. **Common Stock** shall mean the Corporation's common stock.

H. **Corporation** shall mean Perficient Inc., a Delaware corporation, and its successors.

I. **Discretionary Option and SAR Grant Program** shall mean the Discretionary Option and SAR Grant program in effect under the Plan.

J. **Employee** shall mean 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. **Exercise Date** shall mean the date on which the Corporation shall have received written notice of the option exercise.

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 such price is reported on the Nasdaq National Market or any successor system. 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 Plan Administrator 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; and

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

M. **Incentive Option** shall mean an option which satisfies the requirements of section 422 of the Code.

N. **Involuntary Termination** shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual’s involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

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

O. **Misconduct** shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any intentional wrongdoing by such person, 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).

P. **1934 Act** shall mean the Securities Exchange Act of 1934, as amended.

Q. **Non-Statutory Option** shall mean an option not intended to satisfy the requirements of section 422 of the Code.

R. **Option Surrender Value** shall mean the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation.

S. **Optionee** shall mean any person to whom an option is granted under the Discretionary Option and SAR Grant or Automatic Option Grant Program.

T. **Parent** shall mean 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.

U. **Participant** shall mean any person who is granted an SAR under the Discretionary Option and SAR Grant Program or issued shares of Common Stock under the Stock Issuance Program.

V. **Permanent Disability or Permanent Disabled** shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

W. **Plan** shall mean the Corporation's 1999 Stock Incentive Plan, amended and restated generally effective as of **___,** as set forth in this document.

X. **Plan Administrator** shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Discretionary Option and SAR Grant and Stock Issuance Programs with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction. However, the Primary Committee shall have the plenary authority to make all factual determinations and to construe and interpret any and all ambiguities under the Plan to the extent such authority is not otherwise expressly delegated to any other Plan Administrator.

Y. **Plan Effective Date** shall mean May 3, 1999, the date on which the Plan was adopted by the Board. This amendment and restatement is effective as of ___except to the extent the Board has adopted an amendment to the Plan by resolution and/or stockholder approval, if applicable, in which case such amendment is effective as of the date declared by the Board upon passage of the applicable resolutions.

Z. **Primary Committee** shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option and SAR Grant Stock Issuance, and Automatic Option Grant Programs with respect to Section 16 Insiders.

AA. **Secondary Committee** shall mean a committee of one (1) or more Board members appointed by the Board to administer the Discretionary Option and SAR Grant, Stock Issuance, and Automatic Option Grant Programs with respect to eligible persons other than Section 16 Insiders.

BB. **Section 12 Registration Date** shall mean the date on which the Common Stock is first registered under Section 12 of the 1934 Act.

CC. **Section 16 Insider** shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

DD. **Service** shall mean the performance of services for the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the award.

EE. **Stock Exchange** shall mean either the American Stock Exchange or the New York Stock Exchange.

FF. **Stock Issuance Program** shall mean the stock issuance program in effect under the Plan.

GG. **Subsidiary** shall mean 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.

HH. **10% Stockholder** shall mean the owner of stock (as determined under section 424(d) of the Code) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

II. **Underwriting Agreement** shall mean the agreement between the Corporation and the underwriter or underwriters managing the initial public offering of the Common Stock.

JJ. **Underwriting Date** shall mean the date on which the Underwriting Agreement is executed and priced in connection with an initial public offering of the Common Stock.

KK. **Withholding Taxes** shall mean the Federal, state and local income and employment withholding tax liabilities to which the holder of Non-Statutory Options or unvested shares of Common Stock may become subject in connection with the exercise of those options or the vesting of those shares.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, John T. McDonald, Chief Executive Officer of Perficient, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 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)) [omitted per SEC Release No. 33-8238] 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 report is being prepared;

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

(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; and

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: November 14, 2005

/s/ JOHN T. MCDONALD

John T. McDonald,
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Michael D. Hill, Chief Financial Officer of Perficient, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 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 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)) [omitted per SEC Release No. 33-8238] 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 report is being prepared;

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

(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; and

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: November 14, 2005

/s/ MICHAEL D. HILL

Michael D. Hill,
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the accompanying report on Form 10-Q for the period ended September 30, 2005 and filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John T. McDonald, Chief Executive Officer of Perficient, Inc. (the “Company”), hereby certify that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN T. MCDONALD
John T. McDonald,
Chief Executive Officer
November 14, 2005

In connection with the accompanying report on Form 10-Q for the period ended September 30, 2005 and filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael D. Hill, Chief Financial Officer of Perficient, Inc. (the “Company”), hereby certify that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL D. HILL
Michael D. Hill,
Chief Financial Officer
November 14, 2005