

PERFICIENT INC  
Form 10-K/A  
August 14, 2007

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

**FORM 10-K/A  
Amendment No. 2**

(Mark one)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2006
  
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission file number 001-15169

**PERFICIENT, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**No. 74-2853258**

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

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

(Address of principal executive offices)

**(512) 531-6000**

(Registrant's telephone number, including area code)

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

**Common Stock, \$0.001 par value**

(Title of Class)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$275.5 million on June 30, 2006 based on the last reported sale price of the Company's common stock on the NASDAQ National Market on June 30, 2006.

As of February 26, 2007, there were 27,288,210 shares of Common Stock outstanding.

Portions of the definitive proxy statement in connection with the 2007 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than April 30, 2007, are incorporated by reference in Part III of this Form 10-K.

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**Perficient, Inc.**

**Form 10-K/A  
Introductory Note**

This Amendment No. 2 to annual report on Form 10-K/A (“Form 10-K/A”) is being filed to amend our annual report on Form 10-K for the year ended December 31, 2006, which was originally filed on March 5, 2007 and amended on March 7, 2007 (Original Form 10-K). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-K/A contains the complete text of Items 7, 8 and 9A of Part II, Item 5 of Part IV and currently dated certificates are included as exhibits. Unaffected items have not been repeated in this Amendment No. 2.

In August 2007, it was determined that certain previously reported payments associated with our business acquisitions were incorrectly included as a component of cash flows provided by operating activities in the Company’s Consolidated Statements of Cash Flows. As a result, we have restated our Consolidated Statement of Cash Flows for the years ended December 31, 2006 and 2005 to reclassify such payments from cash flows provided by operating activities to cash flows used in investing activities. We have also revised our Notes to Consolidated Financial Statements as necessary to reflect the adjustments.

The restatement adjustments had no impact on the previously issued Consolidated Balance Sheets, Consolidated Statements of Income and Consolidated Statements of Stockholders' Equity.

**This amendment does not reflect events occurring after the filing of the Original Form 10-K, and does not modify or update the disclosures therein in any way other than as required to reflect the adjustments described above. Such events include among others, the events described in our quarterly report on Form 10-Q for the quarter ended March 31, 2007, the quarterly report on Form 10-Q for the quarter and year-to-date period ended June 30, 2007, and the events described in our current reports on Form 8-K filed after the filing of the original Form 10-K. We will file with the Securities and Exchange Commission an amendment to our quarterly report on Form 10-Q for the quarter ended March 31, 2007 to reflect changes therein required as a consequence of the adjustments described above.**

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## PART II

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

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

#### **Overview**

We are an information technology consulting firm serving Global 2000 and large enterprise companies throughout the United States and Canada. 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 Revenues*

Services revenues are derived from professional services performed developing, implementing, integrating, automating and extending business processes, and technology infrastructure and software applications. Most of our projects are performed on a time and materials basis, and a smaller amount of revenues is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 9% of our services revenues for the year ended December 31, 2006. For time and material projects, revenues 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, revenues are generally recognized using the proportionate performance method. Revenues on uncompleted projects are recognized on a contract-by-contract basis in the period in which the portion of the fixed fee is complete. Amounts invoiced to clients in excess of revenues recognized are classified as deferred revenues. The Company's average bill rates increased slightly in 2006. The Company is anticipating modest additional increases in 2007. On most projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenues. 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 Revenues*

Software revenues are derived from sales of third-party software. Revenues from sales of third-party software are recorded on a gross basis provided we act as a principal in the transaction. In the event we do not meet the requirements to be considered a principal in the software sale transaction and act as an agent, the revenues are recorded on a net basis. Software revenues are expected to fluctuate from quarter-to-quarter depending on our customers' demand for software products.

#### *Cost of revenues*

Cost of revenues consists primarily of cash and non-cash compensation and benefits associated with our technology professionals and subcontractors. Non-cash compensation includes stock compensation expenses arising from restricted stock and option grants to employees. Cost of revenues 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 revenues does not include depreciation of assets used in the production of revenues.

### *Gross Margins*

Our gross margins for services are affected by the utilization rates of our professionals, defined as the percentage of our professionals' time billed to customers divided by the total available hours in the respective period, the salaries we pay our consulting professionals and the average billing rate we receive from our customers. If a project ends earlier than scheduled or we retain professionals in advance of receiving project assignments, or if demand for our services declines, our utilization rate will decline and adversely affect our gross margins. 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 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 ("SG&A") consist of salaries, bonuses, non-cash compensation, office costs, recruiting, professional fees, sales and marketing activities, training, and other miscellaneous expenses. Non-cash compensation includes stock compensation expenses related to restricted stock and option grants to employees and non-employee directors. We work to minimize selling costs by focusing on repeat business with existing customers and by accessing sales leads generated by our software business 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. A substantial portion of our SG&A costs are relatively fixed. As a result, we expect SG&A costs as a percentage of revenue to decline as we continue to increase revenues in 2007.

### *Plans for Growth and Acquisitions*

Our goal is to continue to build one of the leading independent information technology consulting firms in North America by expanding our relationships with existing and new clients, leveraging our operations to expand nationally and continuing to make disciplined acquisitions. We believe the United States represents an attractive market for growth, primarily through acquisitions. As demand for our services grows, we believe we will attempt to increase the number of professionals in our 15 North American offices and to add new offices throughout the United States, both organically and through acquisitions. In addition, we believe our track record for identifying acquisitions and our ability to integrate acquired businesses helps us complete acquisitions efficiently and productively, while continuing to offer quality services to our clients, including new clients resulting from the acquisitions.

Consistent with our strategy of growth through disciplined acquisitions, we consummated six acquisitions since January 1, 2005, including one in February 2007.

## Results of Operations

The following table summarizes our results of operations as a percentage of total revenues:

Revenues:	2006	2005	2004
Services revenues	85.6%	86.3%	73.6%
Software revenues	9.0	9.7	22.4
Reimbursed expenses	5.4	4.0	4.0
Total revenues	100.0	100.0	100.0
Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	52.3	52.7	44.3
Software costs	7.5	8.0	19.3
Reimbursable expenses	5.4	4.0	4.0
Other project related expenses	1.3	1.9	0.5
Total cost of revenues	66.5	66.6	68.1
Services gross margin	37.4	36.7	39.2
Software gross margin	16.1	17.8	13.9
Total gross margin	35.3	34.8	33.3
Selling, general and administrative	20.1	18.5	18.8
Depreciation and amortization	2.7	2.3	2.1
Income from operations	10.7	12.6	11.0
Interest expense, net	(0.2)	(0.7)	(0.2)
Income before income taxes	10.5	11.9	10.8
Provision for income taxes	4.5	4.6	4.3
Net income	6.0%	7.3%	6.5%

### Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

*Revenues.* Total revenues increased 66% to \$160.9 million for the year ended December 31, 2006 from \$97.0 million for the year ended December 31, 2005. Services revenues increased 65% to \$137.7 million in 2006 from \$83.7 million in 2005. These increases were attributable to increased demand for the Company's services and to the acquisitions of Bay Street Solutions Inc. ("Bay Street"), Insolexen Corp. ("Insolexen"), and the Energy, Government and General Business ("EGG") division of Digital Consulting & Software Services, Inc. in 2006 and the full year impact of the acquisitions of iPath and Vivare in 2005. Services revenue increased 23% due to organic services revenue growth for the year ended December 31, 2006 compared to 14% for the year ended December 31, 2005. The Company calculates organic services revenue growth by measuring the trailing four quarters sequential quarterly services revenue growth for businesses that have been owned for at least two quarters.

Additionally, the increase in services revenues resulted from increases in the number of projects. The average utilization rate of our professionals, excluding subcontractors, remained consistent at 83% for the years ended December 31, 2006 and 2005. The Company believes utilization rates will be similar in 2007. Software revenues increased 54% to \$14.4 million in 2006 from \$9.4 million in 2004 mainly due to acquisitions and corresponding services revenue growth. Reimbursable expenses increased 127% to \$8.8 million in 2006 from \$3.9 million in 2005 due to acquisitions and an increased number of projects requiring consultant travel. We do not realize any profit on reimbursable expenses.

*Cost of revenues.* Cost of revenues increased 66% to \$107.2 million for the year ended December 31, 2006 from \$64.6 million for the year ended December 31, 2005. The increase in cost of revenues is attributable to an increase in the



number of professionals as a result of organic growth in addition to the acquisitions of Bay Street, Insolex, and EGG, an increase in bonus costs associated with strong operating performance, and stock compensation expense. The average number of professionals performing services, including subcontractors, increased to 686 for the year ended December 31, 2006 from 431 for the year ended December 31, 2005. Stock compensation expense included in cost of revenues for the year ended December 31, 2006 was nearly \$1 million. No stock compensation expense was recognized in cost of revenues prior to January 1, 2006. The increase in stock compensation expense is the result of our adoption of Statement of Financial Accounting Standards No. 123 (revised) ("SFAS 123R"), *Share Based Payment*, on January 1, 2006. Costs associated with software sales increased 57% to \$12.1 million in 2006 from \$7.7 million in 2005 in connection with the increased software revenues in 2006 compared to 2005.

*Gross Margin.* Gross margin increased 66% to \$53.8 million for the year ended December 31, 2006 from \$32.4 million for the year ended December 31, 2005. Gross margin as a percentage of revenues remained consistent at 33.4% for the years ended December 31, 2006 and 2005. Services gross margin increased to 37.4% in 2006 from 36.7% in 2005 primarily due to an increase in average billing rates and improved project pricing. This increase was partially offset by \$1 million of non-cash stock compensation expense recognized in cost of revenues during the year ended December 31, 2006, as discussed above. Excluding stock compensation expense, gross margin increased to 34% for the year ended December 31, 2006 from 33% for the year ended December 31, 2005. Software gross margin decreased to 16.1% in 2006 from 17.7% in 2005 primarily as a result of fluctuations in selling prices to customers due to fluctuations in vendor pricing based on market conditions at the time of the sales.

*Selling, General and Administrative.* Selling, general and administrative expenses increased 80% to \$32.3 million for the year ended December 31, 2006 from \$17.9 million for the year ended December 31, 2005 due primarily to an increase in bonus costs associated with strong operating performance of \$3.5 million. We also experienced increases in sales related costs of \$3.2 million, management personnel, support personnel and facilities related to our investment in our infrastructure, including improvements related to Sarbanes-Oxley of \$2.3 million. The acquisitions of Bay Street, Insolexen, and EGG during 2006 also contributed to the increase. Stock compensation expense included in selling, general and administrative expenses for the year ended December 31, 2006 was \$2.1 million compared to \$264,000 for the year ended December 31, 2005. The increase in stock compensation expense is the result of our adoption of SFAS 123R on January 1, 2006. Selling, general and administrative expenses as a percentage of revenues, excluding stock compensation, increased to 19% for the year ended December 31, 2006 from 18% for the year ended December 31, 2005 due primarily to higher bonus and recruiting, partially offset by lower office costs, salaries, and professional fees. Stock compensation expense, as a percentage of services revenues, increased to 1.6% for the year ended December 31, 2006 compared to 0.3% for the year ended December 31, 2005.

*Depreciation.* Depreciation expense increased 54% to \$948,000 during 2006 from approximately \$615,000 during 2005. The increase in depreciation expense is due to the addition of software programs, servers, and other computer equipment to enhance our technology infrastructure and support our growth, both organic and acquisition-related. Depreciation expense as a percentage of total revenues was 0.6% for the years ended December 31, 2006 and 2005.

*Intangibles Amortization.* Intangibles amortization expenses increased 115% to \$3.5 million for the year ended December 31, 2006 from approximately \$1.6 million for the year ended December 31, 2005. The increase in amortization expense reflects the acquisition of intangibles acquired from Bay Street, Insolexen, and EGG and full year amortization of intangible assets acquired for iPath and Vivare.

*Interest Expense.* Interest expense decreased 23% to \$509,000 for the year ended December 31, 2006 compared to approximately \$658,000 during the year ended December 31, 2005. This decrease is primarily due to a lower average amount of debt outstanding during 2006 compared to 2005. As of December 31, 2006, there was approximately \$1.3 million outstanding on the acquisition line of credit and no amounts outstanding on the accounts receivable line of credit. Our outstanding borrowings on the acquisition line of credit had an average interest rate of 7.0% for the year ended December 31, 2006 while the average interest rate on our accounts receivable line of credit borrowings for the year ended December 31, 2006 was 7.96%. During 2006, we drew down \$34.9 million on the accounts receivable line of credit and repaid \$38.9 million.

*Provision for Income Taxes.* We accrue a provision for federal, state and foreign income tax at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate increased to 43.2% for the year ended December 31, 2006 from 38.5% for the year ended December 31, 2005 as a result of non-deductible stock compensation related to incentive stock options included in our statement of operations in 2006 as a result of the adoption of SFAS 123R on January 1, 2006 and certain non-deductible compensation required by Section 162(m) of the Internal Revenue Code, which imposes a limitation on the deductibility of certain compensation in excess of \$1 million paid to covered employees .



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

*Revenues.* Total revenues increased 65% to \$97.0 million for the year ended December 31, 2005 from \$58.8 million for the year ended December 31, 2004. Services revenues increased 93% to \$83.7 million in 2005 from \$43.3 million in 2004. These increases were attributable to increased demand for the Company's services and to the acquisitions of iPath Solutions, Ltd. ("iPath") and Vivare, LP ("Vivare") in 2005 and the full year impact of the acquisitions of Genisys Consulting, Inc. ("Genisys"), Meritage Technologies, Inc. ("Meritage") and ZettaWorks LLC ("Zettaworks") in 2004.

Additionally, the increase in services revenues resulted from increases in average project size and quantity of projects. The average utilization rate of our professionals, excluding subcontractors, remained relatively stable at 83% for the year ended December 31, 2005. For the years ended December 31, 2005 and 2004, 9% and 17%, respectively, of our revenues was derived from sales to IBM. While the dollar amount of revenues from IBM has remained relatively constant over the past two years, the percentage of total revenues from IBM has decreased as a result of the Company's growth and corresponding customer diversification. Software revenues decreased 29% to \$9.4 million in 2005 from \$13.2 million in 2004 due to lower client demand in the fourth quarter of 2005 compared to 2004. Software revenues are generated from the sale of third party software except for approximately \$282,000 from the sale of internally developed software recognized in 2005. Reimbursable expenses increased 65% to \$3.9 million in 2005 from \$2.3 million in 2004.

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

*Gross Margin.* Gross margin increased 72% to \$32.4 million for the year ended December 31, 2005 from \$18.8 million for the year ended December 31, 2004. Gross margin as a percentage of total revenues increased to 33.4% in 2005 from 32.0% in 2004. The increase in gross margin as a percentage of total revenues is due to a mix of improved software margins off-set by lower services margins. Services gross margin decreased slightly to 36.7% in 2005 from 39.2% in 2004 primarily due to lower gross margins on consulting services contracts acquired in the acquisitions of ZettaWorks and iPath. These businesses are national practices rather than local practices and, as a result, they incur a greater amount of unreimbursed travel expenses for delivery of services outside of their local geographic market. Unreimbursed expenses negatively impact our services gross margins. Services gross margins have also been impacted by the acquisition of Vivare which has slightly lower services gross margins than our historical average. Software gross margin increased to 17.7% in 2005 from 13.9% in 2004 primarily as a result of fluctuations in selling prices to customers based on fluctuations in vendor pricing based on market conditions at the time of the sales and from the sale of internally developed software representing software revenues of approximately \$282,000 for which there was no associated cost of revenues.

*Selling, General and Administrative.* Selling, general and administrative expenses increased 62% to \$17.9 million for the year ended December 31, 2005 from \$11.1 million for the year ended December 31, 2004 due primarily to increases in the cost of compliance with the Sarbanes-Oxley Act of 2002, professional service fees associated with external audits, and additions of sales personnel, management personnel, support personnel and facilities related to the acquisitions of iPath and Vivare in 2005 and the full year impact of the acquisitions of Genisys, Meritage and Zettaworks in 2004. However, selling, general and administrative expenses as a percentage of total revenues decreased

to 18.5% for the year ended December 31, 2005 from 18.8% for the year ended December 31, 2004. The decrease in selling, general and administrative expenses as a percentage of services revenues is the result of operational efficiencies and economies of scale as the Company has grown. However, these cost efficiencies have been off-set by the cost of compliance with the Sarbanes-Oxley Act of 2002 and regular external audit costs which resulted in total costs to the Company during 2005 of approximately \$837,000 compared to approximately \$145,000 in 2004. In addition, the Company changed its internal policy for the carry-over of selling, general and administrative employee's accrued vacation hours which we had allowed as of December 31, 2004, but discontinued this policy and allowed no more vacation hour carry-overs as of December 31, 2005. As a result, the Company had approximately \$48,000 of selling, general and administrative employee's accrued vacation expense as of December 31, 2004 which was forfeited during 2005. Also, during 2005, the Company reduced its allowance for doubtful accounts by approximately \$104,000 as a result of improved collections on accounts receivable. Finally, during 2005, the Company realized approximately \$300,000 in reduced organizational meeting expenses as compared to 2004.

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

*Intangibles Amortization.* Intangibles amortization expenses, arising from acquisitions, increased 131% to approximately \$1.6 million for the year ended December 31, 2005 from approximately \$0.7 million for the year ended December 31, 2004. The increase in amortization expense is the result of increased acquisition activity.

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

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

### **Liquidity and Capital Resources**

In August 2007, it was determined that the Consolidated Statement of Cash Flows should be restated to properly reflect certain transactions related to our business acquisitions that were incorrectly classified as operating cash flows. As a result of these errors and as more fully discussed in the Introductory Note to this Amendment No. 2, certain financial and other information contained herein have been restated to reflect adjustments described in Note 2 to the accompanying consolidated financial statements. Please read Note 2 for a discussion of the adjustments. The discussion of liquidity and capital resources below is based on the restated Consolidated Statements of Cash Flows.

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

	<b>As of December 31,</b>	
	<b>2006</b>	<b>2005</b>
Cash and cash equivalents	\$ 4.5	\$ 5.1
Working capital	24.9	17.1

### ***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 generated by operations for the year ended December 31, 2006 was \$13.1 million compared to \$9.2 million for the year ended December 31, 2005. The primary components of operating cash flows for the year ended December 31, 2006 were net income after adding back non-cash expenses of \$17.1 million offset by increases to accounts receivable of \$5.8 million, decreases to accounts payable of \$1.3 million, and decreases to other liabilities of \$0.7 million. The increase in operating cash flow is due primarily to an increase in non-cash stock compensation of \$2.9 million and intangibles amortization of \$1.8 million. The increase in accounts receivable is primarily related to acquisitions. No significant changes occurred in the average days sales outstanding.

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

For the year ended December 31, 2006, we used approximately \$17.2 million in cash, net of cash acquired, primarily to acquire Bay Street, Insolexen, and EGG. In addition, we used approximately \$1.5 million during 2006 to purchase equipment fixed assets and used approximately \$136,000 for software capitalized for internal use to expand our information management systems. For the year ended December 31, 2005, we used approximately \$11.2 million in cash, net of cash acquired, primarily to acquire iPath and Vivare. In addition, during 2005 we used approximately \$691,000 to purchase equipment fixed assets and used approximately \$599,000 for software capitalized for internal use to expand our information management systems.

***Net Cash from Financing Activities***

Our financing activities consisted primarily of net payments totaling \$4.0 million on our accounts receivable line of credit and \$1.3 million of payments on long term debt. During 2006, we received \$4.2 million from exercises of stock options and warrants and sales of stock through the Company's Employee Stock Purchase Program. In addition, we realized tax benefits on stock option exercises of \$6.6 million during 2006. Prior to the adoption of Statement of Financial Accounting Standards No. 123R (As Amended), *Share Based Payment* ("SFAS 123R") in 2006, the tax benefit on stock option exercises was classified as an activity in operating cash flows.

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

We have a \$51.3 million credit facility with Silicon Valley Bank and Key Bank National Association (“Key Bank”) comprising a \$25 million accounts receivable line of credit and a \$26.3 million acquisition line of credit. Borrowings under the accounts receivable line of credit bear interest at the bank's prime rate, or 8.25%, as of December 31, 2006. As of December 31, 2006, there were no amounts outstanding under the accounts receivable line of credit and \$25 million of available borrowing capacity, excluding \$450,000 reserved for two outstanding letters of credit to secure facility leases. In January 2007, the letters of credit decreased \$50,000. This accounts receivable line of credit matures in June 2008.

Our \$26.3 million term acquisition line of credit with Silicon Valley Bank and Key Bank provides an additional source of financing for certain qualified acquisitions. As of December 31, 2006 the balance outstanding under this acquisition line of credit was \$1.3 million. Borrowings under this acquisition line of credit bear interest equal to the four year U.S. Treasury note yield plus 3% based on the spot rate on the day the draw is processed (7.69% at December 31, 2006). Borrowings under this acquisition line are repayable in thirty-six equal monthly installments, after the initial interest only period which continues through June 29, 2007. Draws under this acquisition line may be made through June 29, 2008. We currently have \$25 million of available borrowing capacity under this acquisition line of credit.

As of December 31, 2006, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months. Substantially all of our assets are pledged to secure the credit facility.

There were no material changes outside the ordinary course of our business in lease obligations or other contractual obligations in 2006. We believe that the current available funds, access to capital from our credit facilities, 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.

We have filed a shelf registration statement with the Securities and Exchange Commission to allow for offers and sales of our common stock from time to time. Approximately 5 million shares of common stock may be sold under this registration statement if we choose to do so.

**Contractual Obligations**

In connection with certain of our acquisitions, we were required to establish various letters of credit totaling \$450,000 to serve as collateral to secure facility leases. The letters of credit reduce the borrowings available under our accounts receivable line of credit. In January 2007, the letters of credit decreased \$50,000.

In connection with the acquisition of Javelin, we issued \$1.5 million in notes, which have been fully repaid since April 2006.

We have incurred commitments to make future payments under contracts such as leases and certain long-term liabilities. Maturities, including estimated interest, under these contracts are set forth in the following table as of December 31, 2006 (in thousands):

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	\$ 1,390	\$ 1,251	\$ 139	\$ --	\$ --



Long-term debt obligations, including estimated interest						
Operating lease obligations	4,683	1,355	2,148	1,119	61	
Total	\$ 6,073	\$ 2,606	\$ 2,287	\$ 1,119	\$ 61	

See Note 10 - "Income Taxes" in Notes to Consolidated Financial Statements for information related to the Company's obligations for taxes.

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

## **Subsequent Event**

On February 20, 2007, the Company consummated the acquisition of E-Tech Solutions. The Company paid approximately \$12.2 million consisting of approximately \$6.1 million in cash and \$6.1 million worth of the Company's common stock, subject to certain post-closing adjustments. As required, we will use the closing price of the Company's common stock at or near the close date in reporting the value of the stock consideration paid in the acquisition, which was \$20.34. The Company issued 306,248 shares of its common stock in connection with the acquisition.

## **Critical Accounting Policies**

The Company's accounting policies are described in Note 3 to the Consolidated Financial Statements. The Company believes its most critical accounting policies include revenue recognition, estimating the allowance for doubtful accounts, accounting for goodwill and intangible assets, purchase accounting allocation, accounting for stock-based compensation, deferred income taxes and estimating the related valuation allowances.

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

Consulting revenues are comprised of revenues from professional services fees recognized primarily on a time and materials basis as performed. For fixed fee engagements, revenues is recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Revenues on uncompleted projects are recognized on a contract-by-contract basis in the period in which the portion of the fixed fee is complete. Billings in excess of costs plus earnings are classified as deferred revenues. Our normal payment terms are net 30 days. Reimbursements for out-of-pocket expenses are included in gross revenues. Revenues from the sale of third-party software are 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 revenues on a net basis. There is no effect on net income between recording the software sales on a gross basis versus a net basis.

Revenues are recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) delivery and acceptance has occurred, and (4) collectibility is deemed probable. We consider a non-cancelable fully executed agreement or client purchase order to be persuasive evidence of an arrangement. We consider delivery to have occurred upon the rendering of services or delivery of software to the client. We consider the fee to be fixed or determinable if the fee is not subject to adjustment, or if we have not granted extended payment terms to the client. We consider collection to be probable if our internal credit analysis indicates that the client will be able to pay amounts as they become due under the arrangement.

For our sales arrangements that contain multiple revenue elements, such as software licenses, professional services and software maintenance, we first determine whether the arrangement is within the scope of Emerging Issues Task Force ("EITF") EITF No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables" or Statement of Position ("SOP") 97-2 ("SOP 97-2"), "Software Revenue Recognition". Under EITF 00-21, separate contracts to provide services or for the sale of software to the same client must be evaluated as a multiple element arrangement if they are entered into in the same time frame. We recognize revenue on arrangements with multiple deliverables as separate units of accounting only if certain criteria are met. In general, a deliverable meets the separation criteria if the deliverable has standalone value to the client and if there is objective and reliable evidence of the fair value of all remaining undelivered elements in the arrangement. We allocate the total arrangement consideration to each separate unit of accounting based on the relative fair value of each separate unit of accounting. The amount of arrangement consideration that is allocated to a delivered unit of accounting is limited to the amount that is not contingent upon the delivery of another separate unit of accounting. All deliverables of the Company's multiple element arrangements meet these criteria.

We follow very specific and detailed guidelines, discussed above, in determining revenues; however, certain judgments and estimates are made and used to determine revenues recognized in any accounting period. Material differences may result in the amount and timing of revenues recognized for any period if different conditions were to prevail.

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

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

Our allowance for doubtful accounts is based upon specific identification of likely and probable losses. Each accounting period, we evaluate accounts receivable for risk associated with a client's inability to make contractual payments or unresolved issues with the adequacy of our services. Billed and unbilled receivables that are specifically identified as being at risk are provided for with a charge to revenue in the period the risk is identified. We use considerable judgment in assessing the ultimate realization of these receivables, including reviewing the financial stability of the client, evaluating the successful mitigation of service delivery disputes, and gauging current market conditions. If our evaluation of service delivery issues or a client's ability to pay is incorrect, we may incur future reductions to revenue.

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

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. The Company follows Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*. In accordance with SFAS No. 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. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of the businesses, market conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill is impaired. Any resulting impairment loss could have an adverse impact on our results of operations by decreasing net income. Management assessed goodwill for impairment at October 1, 2006. This analysis indicated that there was no impairment of the carrying values of goodwill.

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

*Purchase Price Allocation*

We allocate the purchase price of our acquisitions to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Some of the items, including accounts receivable, property and equipment, other intangible assets, certain accrued liabilities, and other reserves require a high degree of management judgment. Certain estimates may change as additional information becomes available. Goodwill is assigned at the enterprise level and is deductible for tax purposes for certain types of acquisitions. The purchase price is allocated to intangibles based on management's estimate and an independent valuation. Management finalizes the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved.

*Accounting for Stock-Based Compensation*

We adopted SFAS No. 123R, *Share-Based Payment*, on January 1, 2006, using the modified prospective application transition method. SFAS No. 123R requires that the costs of employee share-based payments be measured at fair value on the awards' grant date and recognized in the financial statements over the requisite service period.

The Company estimates the fair value of stock option awards on the date of grant utilizing a modified Black-Scholes option pricing model. The Black-Scholes option valuation model was developed for use in estimating the fair value of short-term traded options that have no vesting restrictions and are fully transferable. However, certain assumptions used in the Black-Scholes model, such as expected term, can be adjusted to incorporate the unique characteristics of the Company's stock option awards. Option valuation models require the input of somewhat subjective assumptions including expected stock price volatility and expected term. The Company believes it is unlikely that materially different estimates for the assumptions used in estimating the fair value of stock options granted would be made based on the conditions suggested by actual historical experience and other data available at the time estimates were made. Restricted stock awards are valued at the price of our common stock on the date of the grant.

Prior to January 1, 2006, the Company accounted for share-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and elected the disclosure option of SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. SFAS No. 123 required that companies either recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value, or provide pro forma disclosure of net income and earnings per share in the notes to the financial statements. Accordingly, the Company measured compensation expense for stock options as the excess, if any, of the estimated fair market value of the Company's stock at the date of grant over the exercise price. The Company provided pro forma effects of this measurement in a footnote to its financial statements.

#### *Income Taxes*

To record income tax expense, we are required to estimate our income taxes in each of the jurisdictions in which we operate. In addition, income tax expense at interim reporting dates requires us to estimate our expected effective tax rate for the entire year. This involves estimating our actual current tax liability together with assessing temporary differences that result in deferred tax assets and liabilities and expected future tax rates.

Management believes that our net deferred tax asset should continue to be reduced by a valuation allowance to an amount we believe is more likely than not to be realized. Future operating results and projections could alter this conclusion, potentially resulting in an increase or decrease in the valuation allowance. Since the valuation allowance relates solely to net operating and capital losses from acquired companies which are subject to usage limitations, any decrease in the valuation allowance will be applied first to reduce goodwill and then to reduce other acquisition related non-current intangible assets to zero. Any remaining decrease in the valuation allowance would be recognized as a reduction of income tax expense.

### **Recent Accounting Pronouncements**

In September 2006, the SEC issued Staff Accounting Bulletin 108 ("SAB 108"), which expresses the Staff's views regarding the process of quantifying financial statement misstatements. The bulletin was effective at fiscal year end 2006. The implementation of this bulletin had no impact on the Company's results of operations, cash flows or financial position.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and will be effective for periods beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS 157 on the Company's consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. FIN 48 will be applied prospectively and will be effective for fiscal years beginning after December 31, 2006. The Company will adopt the provisions of FIN 48 in the first quarter of 2007 as required. The adoption of FIN 48 is not expected to have a material effect on the Company's consolidated financial statements.

In June 2006, the EITF ratified EITF Issue 06-3, *How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*. A consensus was reached that entities may adopt a policy of presenting taxes in the income statement on either a gross or net basis. An entity should disclose its policy of presenting taxes and the amount of any taxes presented on a gross basis should be disclosed, if significant. The guidance is effective for periods beginning after December 15, 2006. We present revenues net of taxes. EITF 06-3 will not impact the method for recording these sales taxes in our consolidated financial statements.

### **Off-Balance Sheet Arrangements**

The Company currently has no off-balance sheet arrangements, except operating lease commitments as disclosed in Footnote 11 to the consolidated financial statements.

**Item 8. Financial Statements and Supplementary Data.****PERFICIENT, INC.****CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2006 AND 2005**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,549	\$ 5,096
Accounts receivable, net of allowance for doubtful accounts of \$707 in 2006 and \$367 in 2005	38,600	23,251
Prepaid expenses	1,171	887
Other current assets	2,799	1,530
Total current assets	47,119	30,764
Property and equipment, net	1,806	960
Goodwill	69,170	46,263
Intangible assets, net	11,886	5,768
Other non-current assets	1,019	1,180
Total assets	\$ 131,000	\$ 84,935
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 5,025	\$ 3,774
Current portion of long-term debt	1,201	1,337
Other current liabilities	16,034	8,331
Note payable to related parties	--	244
Total current liabilities	22,260	13,686
Long-term debt, less current portion	137	5,338
Deferred income taxes	1,251	--
Total liabilities	23,648	19,024
Commitments and contingencies (see Note 6 and 11)		
Stockholders' equity:		
Common stock (\$0.001 par value per share; 50,000,000 shares authorized and 26,699,974 shares issued and outstanding as of December 31, 2006; 23,294,509 shares issued and outstanding as of December 31, 2005)	27	23
Additional paid-in capital	147,028	115,120
Accumulated other comprehensive loss	(125)	(87)
Accumulated deficit	(39,578)	(49,145)
Total stockholders' equity	107,352	65,911
Total liabilities and stockholders' equity	\$ 131,000	\$ 84,935

*See accompanying notes to consolidated financial statements.*





## PERFICIENT, INC.

**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	Year Ended December 31,		
	2006	2005	2004
Revenues	(In thousands, except share data)		
Services	\$ 137,722	\$ 83,740	\$ 43,331
Software	14,435	9,387	13,170
Reimbursable expenses	8,769	3,870	2,347
Total revenues	160,926	96,997	58,848
Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	84,161	51,140	26,073
Software costs	12,118	7,723	11,341
Reimbursable expenses	8,769	3,870	2,347
Other project related expenses	2,122	1,846	267
Total cost of revenues	107,170	64,579	40,028
Gross margin	53,756	32,418	18,820
Selling, general and administrative	32,268	17,917	11,068
Depreciation	948	615	512
Amortization of intangible assets	3,458	1,611	697
Income from operations	17,082	12,275	6,543
Interest income	102	15	3
Interest expense	(509)	(658)	(137)
Other income	174	43	32
Income before income taxes	16,849	11,675	6,441
Provision for income taxes	7,282	4,498	2,528
Net income	\$ 9,567	\$ 7,177	\$ 3,913
Basic net income per share	\$ 0.38	\$ 0.33	\$ 0.22
Diluted net income per share	\$ 0.35	\$ 0.28	\$ 0.19
Shares used in computing basic net income per share	25,033,337	22,005,154	17,648,575
Shares used in computing diluted net income per share	27,587,449	25,242,496	20,680,507

*See accompanying notes to consolidated financial statements.*

**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**  
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at January 1, 2004	14,039	\$ 14	\$ 76,289	\$ (52)	\$ (60,235)	\$ 16,016
Warrants exercised	1,277	1	2,539	--	--	2,540
Stock options exercised	492	1	656	--	--	657
Issuance of stock for Genisys, Meritage, and ZettaWorks acquisitions	4,049	4	18,770	--	--	18,774
Issuance of stock for private placement	800	1	2,359	--	--	2,360
Tax benefit of stock option exercises	--	--	342	--	--	342
Stock compensation	--	--	27	--	--	27
Foreign currency translation adjustment	--	--	--	(6)	--	(6)
Net income	--	--	--	--	3,913	3,913
Total comprehensive income	--	--	--	--	--	3,907
Balance at December 31, 2004	20,657	21	100,982	(58)	(56,322)	44,623
Warrants exercised	88	--	157	--	--	157
Stock options exercised	1,354	1	2,703	--	--	2,704
Issuance of stock for iPath and Vivare acquisitions	1,196	1	8,708	--	--	8,709
Tax benefit of stock option exercises	--	--	2,306	--	--	2,306
Stock compensation	--	--	264	--	--	264
Foreign currency translation adjustment	--	--	--	(29)	--	(29)
Net income	--	--	--	--	7,177	7,177
Total comprehensive income	--	--	--	--	--	7,148
Balance at December 31, 2005	23,295	23	115,120	(87)	(49,145)	65,911
Issuance of stock for Bay Street, Insolexen, and EGG acquisitions	1,499	2	17,989	--	--	17,991
Warrants exercised	145	--	146	--	--	146
Stock options exercised	1,672	2	4,001	--	--	4,003
Purchases of stock from Employee Stock	6	--	86	--	--	86

<b>Purchase Plan</b>						
Tax benefit of stock option exercises	--	--	6,554	--	--	6,554
Stock compensation	--	--	3,132	--	--	3,132
Vested stock compensation	83	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	(38)	--	(38)
Net income	--	--	--	--	9,567	9,567
Total comprehensive income	--	--	--	--	--	9,529
<b>Balance at December 31, 2006</b>	<b>26,700</b>	<b>\$</b>	<b>27</b>	<b>\$</b>	<b>147,028</b>	<b>\$</b>
					<b>(125)</b>	<b>\$</b>
					<b>(39,578)</b>	<b>\$</b>
						<b>107,352</b>

*See accompanying notes to consolidated financial statements.*

## PERFICIENT, INC.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004**

	Year Ended December 31,		
	2006	2005	2004
	(As Restated)	(As Restated)	
	(In thousands)		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 9,567	\$ 7,177	\$ 3,913
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	948	615	512
Amortization of intangibles	3,458	1,611	697
Non-cash stock compensation	3,132	264	27
Non-cash interest expense	6	24	--
Tax benefit on stock option exercises	--	2,306	342
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(5,771)	148	(8,120)
Other assets	(152)	(1,866)	76
Accounts payable	1,251	(3,155)	5,297
Other liabilities	708	2,090	1,294
Net cash provided by operating activities	13,147	9,214	4,038
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	(1,518)	(691)	(430)
Capitalization of software developed for internal use	(136)	(599)	--
Purchase of businesses, net of cash acquired	(17,210)	(11,231)	(10,734)
Payments on Javelin notes	(250)	(250)	--
Net cash used in investing activities	(19,114)	(12,771)	(11,164)
<b>FINANCING ACTIVITIES</b>			
Proceeds from revolving line of credit	34,900	12,000	4,000
Payments on revolving line of credit	(38,900)	(8,000)	--
Payments on long-term debt	(1,338)	(1,135)	(522)
Deferred offering costs	--	(942)	--
Tax benefit on stock option exercises	6,554	--	--
Proceeds from the exercise of stock options and Employee Stock Purchase Plan	4,089	2,704	657
Proceeds from the exercise of warrants	146	157	2,540
Proceeds from stock issuances, net	--	--	2,373
Net cash provided by financing activities	5,451	4,784	9,048
Effect of exchange rate on cash and cash equivalents	(31)	(37)	(6)
Change in cash and cash equivalents	(547)	1,190	1,916
Cash and cash equivalents at beginning of period	5,096	3,906	1,990
Cash and cash equivalents at end of period	\$ 4,549	\$ 5,096	\$ 3,906
<b>Supplemental disclosures:</b>			
Interest paid	\$ 540	\$ 594	\$ 141
Cash paid for income taxes	\$ 3,156	\$ 3,684	\$ 2,256

**Non-cash activities:**

Common stock and options issued in purchase of businesses	\$	17,991	\$	8,709	\$	18,774
Change in goodwill	\$	318	\$	670	\$	644

*See accompanying notes to consolidated financial statements.*

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****1. Description of Business and Principles of Consolidation**

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

The Company is incorporated in Delaware. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

**2. Restatement of Financial Information**

The Company is restating its financial statements to present the changes from certain misclassifications in the Consolidated Statement of Cash Flows primarily related to certain previously reported payments associated with its business acquisitions. This includes an adjustment from cash flows provided by operating activities to cash flows used in investing activities for payments made related to prior acquisitions. There is no change to the total change in cash and cash equivalents in the affected periods. Additionally, the restatement does not affect the previously reported consolidated income statements, consolidated balance sheets or consolidated statements of stockholders’ equity amounts, including earnings per share.

The effect of the restatement on specific line items in the Consolidated Statements of Cash Flows is as follows:

	<b>Year Ended,</b>			
	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>As previously reported</b>	<b>As restated</b>	<b>As previously reported</b>	<b>As restated</b>
<b>(In thousands)</b>				
<b>Cash flows from operating activities:</b>				
Other liabilities	\$ (2,824)	\$ 708	\$ 563	\$ 2,090
Net cash provided by operating activities	9,615	13,147	7,687	9,214
<b>Cash flows from investing activities:</b>				
Purchase of businesses, net of cash acquired	(13,678)	(17,210)	(9,704)	(11,231)
Net cash used in investing activities	(15,582)	(19,114)	(11,244)	(12,771)

**3. Summary of Significant Accounting Policies****Use of Estimates**

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

### **Reclassification**

The Company has reclassified the presentation of certain prior period information to conform to the 2006 presentation.

### **Revenue Recognition**

Revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, revenues 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, revenues is generally recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Revenues on uncompleted projects are recognized on a contract-by-contract basis in the period in which the portion of the fixed fee is complete. 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 revenues. Revenues from software sales are recorded on a gross basis based on the Company's role as principal in the transaction. The Company is 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 revenues would be recorded on a net basis.

**PERFICIENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Revenues are recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) delivery and acceptance has occurred, and (4) collectibility is deemed probable. The Company's policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same counterparty is in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, and SEC Staff Accounting Bulletin No. 104, Revenue Recognition. Specifically, if the Company enters into contracts for the sale of services and software, then the Company evaluates whether it has objective fair value evidence for each deliverable in the transaction. If the Company has objective fair value evidence for each deliverable of the transaction, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition policies. All deliverables of the Company's multiple element arrangements meet these criteria. We follow very specific and detailed guidelines, discussed above, in determining revenues; however, certain judgments and estimates are made and used to determine revenues recognized in any accounting period. Material differences may result in the amount and timing of revenues recognized for any period if different conditions were to prevail.

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

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

**Cash and Cash Equivalents**

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

**Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable are recorded at the invoiced amount. The allowance for doubtful accounts is the Company's best estimate of the amount of uncollectible amounts in its existing accounts receivable. Management analyzes historical collection trends and changes in its customer payment patterns, customer concentration, and credit worthiness when evaluating the adequacy of its allowance for doubtful accounts. The Company includes any receivables balances that are determined to be uncollectible in its overall allowance for doubtful accounts. The Company reviews its allowance for doubtful accounts monthly. Account balances are charged off against the allowance when the Company believes that it is probable the receivable will not be recovered.

**Property and Equipment**

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the useful lives of the assets (generally one to five years). Leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the assets.

**Intangible Assets**

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill*



*and Other Intangible Assets*, the Company performs an annual impairment test of goodwill. The Company evaluates goodwill at the enterprise level as of October 1 each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by SFAS No.142, the impairment test is accomplished using a two-stepped approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. The Company also reviewed other factors to determine the likelihood of impairment. No impairment was indicated using data as of October 1, 2006.

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

**PERFICIENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**Impairment of Long-Lived Assets**

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be entirely recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made.

**Deferred Offering Costs**

Costs incurred related to equity offerings under effective registration statements are deferred until the offering occurs or management does not intend to complete the offering. At the time that the issuance of new equity occurs, these costs are netted against the proceeds received. These costs are expensed if the offering does not occur. Approximately \$943,000 of these costs were recorded as part of Other Non-Current Assets on the Balance Sheet as of December 31, 2006.

**Income Taxes**

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

**Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share includes the weighted average number of common shares outstanding and the number of equivalent shares which would be issued related to the stock options and warrants using the treasury method, contingently issuance shares, and convertible preferred stock using the if-converted method, unless such additional equivalent shares are anti-dilutive.

**Stock-Based Compensation**

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R (As Amended), *Share Based Payment* ("SFAS 123R"), using the modified prospective application transition method. Under this method, compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date is recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123. All new awards and awards that are modified, repurchased, or cancelled after the adoption date are accounted for under the provisions of SFAS No. 123R. Prior periods are not restated under this transition method. The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for

forfeitures as they occur, which was the Company's practice prior to the adoption of SFAS No. 123R.

### **Fair Value of Financial Instruments**

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

### **Recently Issued Accounting Standards**

In September 2006, the SEC issued Staff Accounting Bulletin 108 ("SAB 108"), which expresses the Staff's views regarding the process of quantifying financial statement misstatements. The bulletin was effective at fiscal year end 2006. The implementation of this bulletin had no impact on the Company's results of operations, cash flows or financial position.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and will be effective for periods beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS 157 on the Company's consolidated financial statements.

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. FIN 48 will be applied prospectively and will be effective for fiscal years beginning after December 31, 2006. The Company will adopt the provisions of FIN 48 in the first quarter of 2007 as required. The Company is still evaluating the effect of adopting FIN 48 and does not expect it to have a material effect on the Company's consolidated financial statements.

In June 2006, the Emerging Issues Task Force ("EITF") ratified EITF Issue 06-3, *How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*. A consensus was reached that entities may adopt a policy of presenting taxes in the income statement on either a gross or net basis. An entity should disclose its policy of presenting taxes and the amount of any taxes presented on a gross basis should be disclosed, if significant. The guidance is effective for periods beginning after December 15, 2006. We present revenues net of taxes. EITF 06-3 will not impact the method for recording these sales taxes in our consolidated financial statements.

**4. Net Income Per Share**

The following table presents the calculation of basic and diluted net income per share (in thousands, except per share information):

	Year Ended December 31,		
	2006	2005	2004
Net income	\$ 9,567	\$ 7,177	\$ 3,913
Basic:			
Weighted-average shares of common stock outstanding	23,783	20,868	16,964
Weighted-average shares of common stock subject to contingency (i.e. restricted stock)	1,250	1,137	685
Shares used in computing basic net income per share	25,033	22,005	17,649
Effect of dilutive securities:			
Stock options	2,281	3,088	2,836
Warrants	74	149	196
Restricted stock subject to vesting	199	--	--
Shares used in computing diluted net income per share	27,587	25,242	20,681
Basic net income per share	\$ 0.38	\$ 0.33	\$ 0.22
Diluted net income per share	\$ 0.35	\$ 0.28	\$ 0.19

**5. Concentration of Credit Risk and Significant Customers**

Cash and accounts receivable potentially expose the Company to concentrations of credit risk. Cash is placed with highly rated financial institutions. The Company provides credit, in the normal course of business, to its customers. The Company generally does not require collateral or up-front payments. The Company performs periodic credit evaluations of its customers and maintains allowances for potential credit losses. Customers can be denied access to services in the event of non-payment. A substantial portion of the services the Company provides are built on IBM WebSphere<sup>(R)</sup> platforms and a significant number of its clients are identified through joint selling opportunities

conducted with IBM and through sales leads obtained from the relationship with IBM. Revenues from IBM accounted for approximately 8%, 9%, and 17% of total revenues for 2006, 2005 and 2004, respectively, and accounts receivable from IBM accounted for approximately 9% of total accounts receivable as of December 31, 2006 and 2005. While the dollar amount of revenues from IBM has remained relatively constant over the past three years, the percentage of total revenues from IBM has decreased as a result of the Company's growth and corresponding customer diversification. The loss of the Company's relationship with IBM or a significant reduction in the services the Company provides for IBM would result in significantly decreased revenues. Due to the Company's significant fixed operating expenses, the loss of sales to IBM or any significant customer could result in the Company's inability to generate net income or positive cash flow from operations for some time in the future.

## **6. Employee Benefit Plan**

The Company has a qualified 401(k) profit sharing plan available to full-time employees who meet the plan's eligibility requirements. This defined contribution plan permits employees to make contributions up to maximum limits allowed by the Internal Revenue Code.

## PERFICIENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company, at its discretion, matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting services. The Company made matching contributions equal to 25% of the first 6% of employee contributions totaling approximately \$0.5 million, \$0.5 million, and \$0.3 million during 2006, 2005 and 2004, respectively, which vest over a three year period of service.

**7. Intangible Assets***Intangible Assets with Indefinite Lives*

The changes in the carrying amount of goodwill for the year ended December 31, 2006 are as follows (in thousands):

	<b>Goodwill</b>
Balance at December 31, 2004	\$ 32,818
Acquisitions consummated during 2005 (Note 14)	14,115
Utilization of net operating loss carryforwards, forfeiture of restricted stock used for acquisition purchase consideration and changes in estimated acquisition transaction costs	(670)
Balance at December 31, 2005	46,263
Acquisitions consummated during 2006 (Note 14)	22,589
Utilization of net operating loss carryforwards and adjustment to goodwill related to deferred taxes associated with acquisitions	318
Balance at December 31, 2006	\$ 69,170

*Intangible Assets with Definite Lives*

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

	<b>Year ended December 31,</b>					
	<b>2006</b>			<b>2005</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
<b>Customer relationships</b>	\$ 12,860	\$ (2,808)	\$ 10,052	\$ 4,820	\$ (1,122)	\$ 3,698
<b>Non-compete agreements</b>	2,393	(1,094)	1,299	2,073	(621)	1,452
<b>Customer backlog</b>	--	--	--	130	(57)	73
<b>Internally developed software</b>	755	(220)	535	599	(54)	545
<b>Total</b>	\$ 16,008	\$ (4,122)	\$ 11,886	\$ 7,622	\$ (1,854)	\$ 5,768

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

Customer relationships	3 - 8 years
Non-compete agreements	2 - 5 years
Customer backlog	4 months to 1 year

Internally developed software      5 years

The weighted average amortization periods for customer relationships and non-compete agreements are 6 years and 5 years, respectively. Total amortization expense for the years ended December 31, 2006, 2005, and 2004 was approximately \$3.5 million, \$1.6 million, and \$0.7 million respectively.

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

2007	\$	2,882
2008		2,689
2009		2,308
2010		1,748
2011		1,619
Thereafter		641

**PERFICIENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**8. Equity Based Compensation**

**Stock Option Plans**

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

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

On December 15, 2004, the Company granted restricted stock awards of 262,500 shares of common stock under the 1999 Stock Option/Stock Issuance Plan. This equity grant vests over seven years, with an original vesting schedule that was back-loaded but was converted to pro-rata or straight-line vesting over the seven year period due to the achievement of certain performance targets and compensation committee approval. On December 28, 2005, the Company granted restricted stock awards of approximately 323,000 shares of common stock under the 1999 Stock Option/Stock Issuance Plan. This equity grant vests over six years, with an original vesting schedule that was back-end loaded but was converted to pro-rata or straight-line vesting over the six year period due to the achievement of certain performance targets and compensation committee approval. On December 21, 2006, the Company granted restricted stock awards of approximately 843,000 shares of common stock under the 1999 Stock Option/Stock Issuance Plan. This equity grant vests ratably over five years.



## PERFICIENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

A summary of changes in common stock options during 2006, 2005 and 2004 is as follows (in thousands, except exercise price information):

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at January 1, 2004	5,726	\$ 0.02 - \$26.00	\$ 2.42	
Options granted	1,459	\$ 3.00 - \$6.31	\$ 4.67	
Options exercised	(492)	\$ 0.03 - \$4.50	\$ 1.34	
Options canceled	(254)	\$ 0.50 - \$13.25	\$ 3.37	
Options outstanding at December 31, 2004	6,439	\$ 0.02 - \$26.00	\$ 2.97	
Options granted	415	\$ 7.34 - \$9.19	\$ 7.81	
Options exercised	(1,354)	\$ 0.03 - \$8.10	\$ 2.00	
Options canceled	(232)	\$ 0.03 - \$16.00	\$ 5.37	
Options outstanding at December 31, 2005	5,268	\$ 0.02 - \$16.94	\$ 3.53	
Options granted	--	--	--	
Options exercised	(1,672)	\$ 0.02 - \$12.13	\$ 2.40	
Options canceled	(44)	\$ 1.01 - \$13.25	\$ 5.41	
Options outstanding at December 31, 2006	3,552	\$ 0.02 - \$16.94	\$ 4.03	43,975
Options vested, December 31, 2004	3,227	\$ 0.02 - \$16.94	\$ 2.85	

			0.02 -		
Options vested, December 31, 2005	3,305	\$	\$16.94	\$	3.00
Options vested or expected to vest, December 31, 2006	2,347	\$	\$16.94	\$	3.62 41,400

The total aggregate intrinsic value of options exercised during the years ended December 31, 2006, 2005, and 2004, was \$18.6 million, \$8.4 million, and \$1.5 million, respectively. The total fair value of restricted shares vesting during the year ended December 31, 2006 was \$1.4 million. For the years ended December 31, 2005 and 2004, the total fair value of restricted shares vesting during the year was \$0.

## PERFICIENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Restricted stock activity for the year ended December 31, 2006 was as follows (in thousands, except fair value information):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2006	614	\$ 7.69
Awards granted	911	15.61
Awards released	(83)	7.62
Awards canceled	(13)	8.04
Restricted stock awards outstanding at December 31, 2006	1,429	\$ 12.74

The following is additional information related to stock options outstanding at December 31, 2006 (in thousands, except exercise price information):

Options Outstanding		Options Exercisable			
		Weighted Average	Weighted Average Remaining	Weighted Average	
Range of Exercise Prices	Options	Exercise Price	Contractual Life (Years)	Options	Exercise Price
\$0.02 - \$1.15	468	\$0.62	4.94	468	\$0.62
\$1.21 - \$2.28	1,101	\$2.09	6.53	808	\$2.02
\$2.77 - \$3.75	796	\$3.42	5.5	578	\$3.54
\$4.40 - \$6.31	733	\$6.04	7.61	182	\$5.51
\$6.97 - \$16.94	454	\$10.10	6.22	311	\$11.30
\$0.02 - \$16.94	3,552	\$4.03	6.27	2,347	\$3.62

The fair value of options was calculated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions for the year ended December 31, 2005 and 2004, as follows, with a weighted-average life of options of 5 years used for each of the years presented:

Year End December 31,	Risk-Free Interest Rate	Dividend Yield	Volatility Factor
2004	3.61%	0%	1.388
2005	3.72%	0%	1.405

No stock options were granted in 2006.

At December 31, 2006, 2005 and 2004, the weighted-average remaining contractual life of outstanding options was 6.27, 7.17, and 7.89 years, respectively. The weighted-average grant-date fair value per share of options granted during 2005 and 2004 at market prices was approximately \$7.81 and \$4.67, respectively. There were no option grants at below or above market prices during 2005 and 2004. No option grants occurred in 2006.

The Company recognized \$3.1 million and \$0.3 million of stock compensation expense during 2006 and 2005, respectively. Tax benefits recognized on stock option exercises were \$0.8 million and \$0.2 million during 2006 and 2005. For the year ended December 31, 2004, stock compensation expense and the related tax benefits recognized on stock option exercises were immaterial. As of December 31, 2006, there was \$19.7 million of total unrecognized compensation cost related to non-vested share-based awards. This cost is expected to be recognized over a weighted-average period of 2.8 years. Our estimated forfeiture rate for the year ended December 31, 2006 of approximately 12% for share based awards was based on historical forfeiture experience to anticipate actual forfeitures in the future.

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

Prior to the adoption of SFAS No. 123R, the Company accounted for employee stock-based compensation using the intrinsic value method prescribed by APB 25. As presented below, the Company applied the disclosure provisions of SFAS 123, as amended by SFAS 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*, as if the fair value method had been applied. If this method had been used, the Company's net income and net income per share for the years ended December 31, 2005 and 2004 would have been adjusted to the pro forma amounts below (in thousands except per share data):

	<b>Year ended December 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income -- as reported	\$ 7,177	\$ 3,913
Total stock-based compensation costs, net of tax, included in the determination of net income as reported	162	27
The stock-based employee compensation cost, net of tax, that would have been included in the determination of net income if the fair value based method had been applied to all awards	(2,609)	(1,016)
Pro forma net income	\$ 4,730	\$ 2,924
Earnings per share		
Basic - as reported	\$ 0.33	\$ 0.22
Basic - pro forma	\$ 0.23	\$ 0.17
Diluted - as reported	\$ 0.28	\$ 0.19
Diluted - pro forma	\$ 0.20	\$ 0.14

At December 31, 2006, 3.6 million shares were reserved for future issuance upon exercise of outstanding options and 8,575 shares were reserved for future issuance upon exercise of outstanding warrants. At December 31, 2006, there were 1.4 million shares of restricted stock outstanding under the 1999 Plan and classified as equity.

The following table summarizes information regarding warrants outstanding and exercisable as of December 31, 2006 (in thousands, except exercise price information):

<b>Warrants Outstanding and Exercisable</b>	
<b>Exercise Price</b>	<b>Warrants</b>
\$1.98	9
<b>\$1.98</b>	<b>9</b>

The majority of the outstanding warrants expire in December 2011.

**Employee Stock Purchase Plan**

In 2005, the Compensation Committee approved the Employee Stock Purchase Plan (the "ESPP") to be available to employees starting January 1, 2006. The ESPP is a broadly-based stock purchase plan in which any eligible employee may elect to participate by authorizing the Company to make payroll deductions in a specific amount or designated percentage to pay the exercise price of an option. In no event will an employee be granted an option under the ESPP that would permit the purchase of Common Stock with a fair market value in excess of \$25,000 in any calendar year and the Compensation Committee of the Company has set the current annual participation limit at \$12,500. For the

year ended December 31, 2006, approximately 6,000 shares had been purchased under the ESPP.

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

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****9. Line of Credit and Long Term Debt**

On June 29, 2006, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank and KeyBank National Association. The amended agreement increased the total size of the Company's senior bank credit facilities from \$28.5 million to \$51.3 million by increasing the accounts receivable line of credit from \$15 million to \$25 million and increasing the acquisition term line of credit from \$13.5 million to \$26.3 million.

The accounts receivable line of credit, which expires in June 2009, provides for a borrowing capacity equal to all eligible accounts receivable, including 80% of unbilled revenues, subject to certain borrowing base calculations as defined in the agreement, but in no event more than \$25 million. Borrowings under this line of credit bear interest at the bank's prime rate (8.25% at December 31, 2006). As of December 31, 2006, there were no amounts outstanding under the accounts receivable line of credit and \$25 million of available borrowing capacity, excluding \$450,000 reserved for two outstanding letters of credit to secure facility leases. In January 2007, the letters of credit decreased \$50,000.

The Company's \$26.3 million term acquisition line of credit provides an additional source of financing for certain qualified acquisitions. As of December 31, 2006, the balance outstanding under this acquisition line of credit was approximately \$1.3 million. Borrowings under this acquisition line of credit bear interest equal to the four year U.S. Treasury note yield plus 3% based on the spot rate on the day the draw is processed (7.69% at December 31, 2006). Borrowings under this acquisition line are repayable in thirty-six equal monthly installments after the initial interest only period which continues through June 29, 2007. Draws under this acquisition line may be made through June 29, 2008. As of December 31, 2006, the balance outstanding under this acquisition line of credit of \$1.3 million had an average interest rate of 7.00%. The Company currently has approximately \$25.0 million of available borrowing capacity under this acquisition line of credit.

The Company is required to comply with various financial covenants under the \$51.3 million credit facility. Specifically, the Company is required to maintain a ratio of after tax earnings before interest, depreciation and amortization, and other non-cash charges, including but not limited to stock and stock option compensation expense 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 revenues less principal amount of all outstanding advances on accounts receivable line of credit to advances under the term acquisition line of credit of at least 0.75 to 1.00, and a maximum ratio of all outstanding advances under the entire credit facility to earnings before taxes, interest, depreciation, amortization and other non-cash charges, including but not limited to, stock and stock option compensation expense including pro forma adjustments for acquisitions on a trailing twelve month basis of no more than 2.50 to 1.00. As of December 31, 2006, the Company was in compliance with all covenants under this facility. This credit facility is secured by substantially all assets of the Company.

Notes payable to related party at December 31, 2005 consisted of non interest-bearing notes issued to the shareholders of Javelin Solutions, Inc. ("Javelin") in April 2002 in connection with the Company's acquisition of Javelin. The note was fully repaid in 2006.

Future minimum term debt repayments as of December 31, 2006 are as follows (in thousands):

	<b>Debt Payments</b>
2007	\$ 1,201

2008		137
Present value of debt commitments		1,338
Less current portion		1,201
Long term portion	\$	137

## 10. Income Taxes

As of December 31, 2006, the Company had U.S. Federal tax net operating loss carry forwards of approximately \$6.3 million that will begin to expire in 2020 if not utilized. The Company has established a valuation allowance against these net operating loss carry forwards of \$2.0 million.

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



**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Current:</b>			
Federal	\$ 1,138	\$ 1,148	\$ 1,412
Foreign	102	223	255
State	260	241	235
Total current	1,500	1,612	1,902
Tax benefit on acquired net operating loss carryforward	246	353	312
Tax benefit from stock options	6,554	2,306	342
<b>Deferred:</b>			
Federal	(902)	201	(26)
Foreign	--	--	--
State	(116)	26	(2)
Total deferred	(1,018)	227	(28)
Total provision for income taxes	\$ 7,282	\$ 4,498	\$ 2,528

The components of pretax income for the years ended December 31, 2006, 2005 and 2004 are as follows (in thousands):

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Domestic	\$ 16,565	\$ 11,267	\$ 5,804
Foreign	284	408	637
Total	\$ 16,849	\$ 11,675	\$ 6,441

Foreign operations include Canada and the United Kingdom for the years ended December 31, 2004 and 2005. In 2006, foreign operations only included Canada. As of December 31, 2006, the Company's location in the United Kingdom was dormant.

## PERFICIENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes as of December 31, 2006 and 2005 are as follows:

	December 31,	
	2006	2005
	(In thousands)	
Deferred tax assets:		
Current deferred tax assets:		
Accrued liabilities	\$ 298	\$ 140
Net operating losses	243	246
Bad debt reserve	268	110
	809	496
Valuation allowance	(457)	(361)
Net current deferred tax assets	\$ 352	\$ 135
Non-current deferred tax assets:		
Net operating losses	\$ 2,339	\$ 2,577
Fixed assets	53	49
Deferred compensation	435	102
	2,827	2,728
Valuation allowance	(1,599)	(1,984)
Net non-current deferred tax assets	\$ 1,228	\$ 744
Deferred tax liabilities:		
Current deferred tax liabilities:		
Deferred income	\$ 308	\$ 93
Non-current deferred tax liabilities:		
Deferred income	\$ 431	\$ 94
Foreign withholding tax on undistributed earnings	65	45
Intangibles	1,983	461
Total non-current deferred tax liabilities	\$ 2,479	\$ 600
Net current deferred tax asset	\$ 44	\$ 42
Net non-current deferred tax asset (liability)	\$ (1,251)	\$ 144

The Company has established a valuation allowance to offset a portion of the Company's deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's earnings history and limitations on the utilization of acquired net operating losses. The valuation allowance decreased by approximately \$0.3 million during 2006 and decreased by approximately \$0.7 million during 2005. These decreases are primarily due to the benefit of acquired net operating loss carryforwards. As of December 31, 2006, all of the valuation allowance relates to acquired entities, and as such, if realized, will reduce goodwill or other non-current assets prior to resulting in an income tax benefit.

Changes to the valuation allowance are summarized as follows for the years presented (in thousands):

	Year ended December 31,		
	2006	2005	2004

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Balance, beginning of year	\$	2,345	\$	3,027	\$	1,057
Benefit realized		(289)		(446)		--
Additions resulting from purchase accounting		--		--		1,970
Write-offs		--		(236)		--
Balance, end of year	\$	2,056	\$	2,345	\$	3,027

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

The federal corporate statutory rate is reconciled to the Company's effective income tax rate as follows:

	Year Ended December 31,		
	2006	2005	2004
Federal corporate statutory rate	34.3%	34.0%	34.0%
State taxes, net of federal benefit	4.6	4.3	2.8
Intangibles amortization	--	--	0.7
Effect of foreign operations	--	0.1	0.6
Stock compensation	2.1	--	--
Other	2.2	0.1	1.1
Effective income tax rate	43.2%	38.5%	39.2%

The effective income tax rate increased to 43.2% for the year ended December 31, 2006 from 38.5% for the year ended December 31, 2005 as a result of non-deductible stock compensation related to incentive stock options included in the Company's statement of operations in 2006 as a result of the adoption of SFAS 123R on January 1, 2006 and certain non-deductible compensation required by Section 162(m) of the Internal Revenue Code, which imposes a limitation on the deductibility of certain compensation in excess of \$1 million paid to covered employees .

**11. Commitments and Contingencies**

The Company leases its office facilities and certain equipment under various operating lease agreements, as amended. The Company has the option to extend the term of certain of its office facilities leases. Future minimum commitments under these lease agreements as of December 31, 2006 are as follows (in thousands):

	Operating Leases
2007	\$ 1,355
2008	1,128
2009	1,020
2010	768
2011	351
Thereafter	61
Total minimum lease payments	\$ 4,683

Rent expense for the years ended December 31, 2006, 2005 and 2004 was approximately \$1.7 million, \$1.5 million and \$1.4 million respectively.

In connection with certain of its acquisitions, the Company was required to establish various letters of credit totaling \$450,000 with Silicon Valley Bank to serve as collateral for certain office space leases. These letters of credit reduce the borrowings available under the Company's line of credit with Silicon Valley Bank. In January 2007, these letters of credit decreased \$50,000. One letter of credit for \$200,000 will remain in effect through October 2009, and the other letter of credit for \$250,000 will remain in effect through June 2007.

## PERFICIENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

## 12. Balance Sheet Components

	December 31,	
	2006	2005
	(In thousands)	
<b>Accounts receivable:</b>		
Accounts receivable	\$ 29,461	\$ 17,037
Unbilled revenues	9,846	6,581
Allowance for doubtful accounts	(707)	(367)
<b>Total</b>	<b>\$ 38,600</b>	<b>\$ 23,251</b>
<b>Other current assets:</b>		
Income tax receivable	\$ 2,150	\$ 1,367
Other current assets	649	163
<b>Total</b>	<b>\$ 2,799</b>	<b>\$ 1,530</b>
<b>Other current liabilities:</b>		
Accrued bonus	\$ 9,851	\$ 3,525
Accrued subcontractor fees	1,803	1,842
Deferred revenues	1,318	1,084
Payroll related costs	1,258	503
Sales and use taxes	326	150
Accrued acquisition costs related to Insolexten and EGG	563	--
Other accrued expenses	915	1,227
<b>Total</b>	<b>\$ 16,034</b>	<b>\$ 8,331</b>
<b>Property and Equipment:</b>		
Hardware (useful life of 2 years)	\$ 3,933	\$ 2,708
Furniture and fixtures (useful life of 5 years)	980	781
Leasehold improvements (useful life of 3 years)	275	150
Software (useful life of 1 year)	702	474
Accumulated depreciation and amortization	(4,084)	(3,153)
<b>Property and equipment, net</b>	<b>\$ 1,806</b>	<b>\$ 960</b>

## 13. Allowance for Doubtful Accounts

Activity in the allowance for doubtful accounts is summarized as follows for the years presented (in thousands):

	Year ended December 31,		
	2006	2005	2004
Balance, beginning of year	\$ 367	\$ 654	\$ 623
Charged to expense	264	32	33
Additions resulting from purchase accounting	371	24	--

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Uncollected balances written off, net of recoveries	(295)	(343)	(2)
Balance, end of year	\$ 707	\$ 367	\$ 654

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**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)****14. Business Combinations**Acquisition of iPath Solutions, Ltd.

On June 10, 2005, the Company acquired iPath Solutions, Ltd. (“iPath”), a privately held technology consulting company, for \$9.9 million. The purchase price consists of \$3.9 million in cash, \$900,000 of liabilities repaid on behalf of iPath, transaction costs of \$600,000, 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 has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level. The purchase price was allocated to intangibles based on management's estimate and an independent valuation. The results of the iPath operations have been included in the Company's consolidated financial statements since June 10, 2005.

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

Intangibles:	
Customer relationships	\$ 0.7
Customer backlog	0.2
Non-compete agreements	0.1
Goodwill	7.3
Tangible assets and liabilities acquired:	
Accounts receivable	1.6
Property and equipment	0.1
Accrued expenses	(0.1)
Net assets acquired	\$ 9.9

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

Acquisition of Vivare, LP

On September 2, 2005, the Company acquired Vivare, LP (“Vivare”), a privately held technology consulting company, for \$9.8 million. The purchase price consists of \$4.9 million in cash, transaction costs of approximately \$500,000, and 618,500 shares of the Company's common stock valued at approximately \$7.03 per share (approximately \$4.4 million worth of Company's common stock). The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level. The purchase price was allocated to intangibles based on management's estimate and an independent valuation. The results of Vivare's operations have been included in the Company's consolidated financial statements since September 2, 2005.

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

**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**Acquisition of Bay Street Solutions, Inc.

On April 7, 2006, the Company acquired Bay Street Solutions, Inc. (“Bay Street”), a national customer relationship management consulting firm, for approximately \$9.8 million. The purchase price consists of approximately \$4.1 million in cash, transaction costs of \$636,000, and 464,569 shares of the Company's common stock valued at approximately \$12.18 per share (approximately \$5.7 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately \$630,000, as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level. The purchase price was allocated to intangibles based on management's estimate and an independent valuation. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of Bay Street's operations have been included in the Company's consolidated financial statements since April 7, 2006.

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

Intangibles:	
Customer relationships	\$ 1.6
Customer backlog	0.2
Non-compete agreements	0.1
Goodwill	6.4
Tangible assets acquired:	
Accounts receivable	2.4
Other assets	0.6
Property and equipment	0.1
Accrued expenses	(1.6)
Net assets acquired	\$ 9.8

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

Acquisition of Insolexen, Corp.

On May 31, 2006, the Company acquired Insolexen, Corp. (“Insolexen”), a business integration consulting firm, for approximately \$15.1 million. The purchase price consists of approximately \$7.7 million in cash, transaction costs of \$695,000, and 522,944 shares of the Company's common stock valued at approximately \$13.72 per share (approximately \$7.2 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately \$613,000, as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level. The purchase price was allocated to intangibles based on management's estimate and an independent valuation. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of Insolexen's operations have been included in the Company's consolidated financial statements since May 31, 2006.



**PERFICIENT, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

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

Intangibles:	
Customer relationships	\$ 2.8
Customer backlog	0.4
Non-compete agreements	0.1
Goodwill	10.5
Tangible assets and liabilities acquired:	
Accounts receivable	3.9
Other assets	2.1
Accrued expenses	(4.7)
Net assets acquired	\$ 15.1

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

Acquisition of the Energy, Government and General Business (EGG) division of Digital Consulting & Software Services, Inc.

On July 21, 2006, the Company acquired the Energy, Government and General Business (“EGG”) division of Digital Consulting & Software Services, Inc., a systems integration consulting business, for approximately \$13.1 million. The purchase price consists of approximately \$6.4 million in cash, transaction costs of approximately \$275,000, and 511,382 shares of the Company's common stock valued at approximately \$12.71 per share (approximately \$6.5 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately \$92,000, as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level. The purchase price was allocated to intangibles based on management's estimate and an independent valuation. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of EGG's operations have been included in the Company's consolidated financial statements since July 21, 2006.

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

Intangibles:	
Customer relationships	\$ 3.7
Customer backlog	0.5
Non-compete agreements	0.1
Goodwill	6.3
Tangible assets and liabilities acquired:	
Accounts receivable	3.7
Other assets	0.4

Accrued expenses		(1.6)
Net assets acquired	\$	13.1

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

## PERFICIENT, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

Pro-forma Results of Operations

The following presents the unaudited pro forma combined results of operations of the Company with iPath, Vivare, Bay Street, Insolexen, and EGG for the years ended December 31, 2006 and 2005, after giving effect to certain pro forma adjustments related to the amortization of acquired intangible assets and assuming these companies were acquired as of the beginning of each period presented. These unaudited pro forma results are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2005 and January 1, 2006 or of future results of operations of the consolidated entities (in thousands, except per share information):

	December 31,	
	2006	2005
Revenues	\$ 181,953	\$ 148,833
Net income	\$ 9,132	\$ 8,464
Basic income per share	\$ 0.36	\$ 0.35
Diluted income per share	\$ 0.32	\$ 0.31

**15. Quarterly Financial Results (Unaudited)**

The following tables set forth certain unaudited supplemental quarterly financial information for the years ended December 31, 2006 and 2005. The quarterly operating results are not necessarily indicative of future results of operations. The financial data presented is not directly comparable between periods as a result of the adoption of Statement of Financial Accounting Standards No. 123R (As Amended), *Share Based Payment* ("SFAS 123R") in the first quarter of 2006 and three acquisitions in 2006 and two acquisitions in 2005 (in thousands, except per share data):

	Three Months Ended,			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
	(Unaudited)			
Revenues:				
Services	\$ 25,606	\$ 32,751	\$ 40,219	\$ 39,145
Software	2,682	2,587	1,532	7,635
Reimbursable expenses	1,356	2,172	2,543	2,698
Total revenues	\$ 29,644	\$ 37,510	\$ 44,294	\$ 49,478
Gross margin	\$ 9,288	\$ 13,178	\$ 15,854	15,437
Income from operations	\$ 3,057	\$ 4,027	\$ 4,840	\$ 5,159
Income before income taxes	\$ 3,034	\$ 3,900	\$ 4,675	\$ 5,241
Net income	\$ 1,705	\$ 2,255	\$ 2,834	\$ 2,774
Basic net income per share	\$ 0.07	\$ 0.09	\$ 0.11	\$ 0.10
Diluted net income per share	\$ 0.07	\$ 0.08	\$ 0.10	\$ 0.10

	Three Months Ended,			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
	(Unaudited)			
Revenues:				

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Services	\$	17,657	\$	19,234	\$	23,157	\$	23,691
Software		1,407		1,393		1,918		4,669
Reimbursable expenses		660		1,034		1,048		1,129
Total revenues	\$	19,724	\$	21,661	\$	26,123	\$	29,489
Gross margin	\$	6,720	\$	7,283	\$	9,298		9,117
Income from operations	\$	2,532	\$	2,756	\$	3,555	\$	3,432
Income before income taxes	\$	2,420	\$	2,650	\$	3,359	\$	3,245
Net income	\$	1,488	\$	1,627	\$	2,066	\$	1,996
Basic net income per share	\$	0.07	\$	0.08	\$	0.09	\$	0.09
Diluted net income per share	\$	0.06	\$	0.07	\$	0.08	\$	0.08

**PERFICIENT, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**

**16. Subsequent Event**

On February 20, 2007, the Company consummated the acquisition of E-Tech Solutions. The Company paid approximately \$12.2 million consisting of approximately \$6.1 million in cash and \$6.1 million worth of the Company's common stock, subject to certain post-closing adjustments. As required, the Company will use the closing price of the its common stock at or near the close date in reporting the value of the stock consideration paid in the acquisition, which was \$20.34. The Company issued 306,248 shares of its common stock in connection with the acquisition.



**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have audited the accompanying consolidated balance sheets of Perficient, Inc. as of December 31, 2006 and 2005 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perficient, Inc. at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Perficient, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 1, 2007 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP  
Houston, Texas  
March 1, 2007, except Note 2  
as to which date is August 13, 2007

## **Item 9A. Controls and Procedures.**

### *Evaluation of Disclosure Controls and Procedures*

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer of the Company, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the fiscal year covered by this Annual Report on Form 10-K/A. As described below under Management's Annual Report on Internal Control Over Financial Reporting, the Company has determined that its disclosure controls and procedures were effective.

### *Management's Report on Internal Control over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2006.

The Company acquired Bay Street, Insolexen, and EGG in April, May, and July of 2006, respectively. As permitted by SEC guidance, management excluded these acquired companies from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In total, Bay Street, Insolexen, and EGG represented 29% and 17% of the Company's total assets and total revenues, respectively, as of and for the year ended December 31, 2006. Excluding identifiable intangible assets and goodwill recorded in the business combination, Bay Street, Insolexen, and EGG represented 6% of the Company's total assets as of December 31, 2006.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

### *Changes in Internal Control Over Financial Reporting*

During the quarter ended December 31, 2006, we continued our remediation efforts from the prior quarters in order to fully remediate our previously reported material weakness. This includes performing the following:

- Verified employee security access to our automated general ledger system is appropriate related to the employee's responsibilities and further strengthened our controls surrounding general ledger access granted to our new accounting personnel;
- Established certain spreadsheet controls including required detail review of key spreadsheets, limited access to key spreadsheets on a central server and assignment of appropriate rights, a controlled process for requesting changes to a spreadsheet, and a process to back up spreadsheets on a regular basis so that complete and accurate information is available for financial reporting;
- Activated certain additional application and prevent controls with the assistance of our general ledger software provider and our internal technology personnel; and
- Engaged a third party to assist with project management and strategic oversight of our remediation of the 2005 significant deficiencies and material weakness and the 2006 control review process.

In addition, during the year ended December 31, 2006, we have hired several new employees to further diversify accounting responsibilities, most notably the addition of a new Chief Financial Officer, but also including various senior and staff accountants.

The cumulative impact of these activities established during 2006 occurred and management obtained sufficient evidence of the operating effectiveness of such additional controls during the year ended December 31, 2006. Accordingly, management has concluded that our previously reported material weakness caused principally by inadequate staffing levels has been remediated.

As discussed in Note 2 to the Notes to Consolidated Financial Statements, in August 2007, it was determined that certain previously reported payments associated with our business acquisitions were incorrectly included as a component of cash flows from operating activities instead of from investing activities in the Company's Consolidated Statement of Cash Flows. These errors were promptly brought to the attention of our audit committee and former auditors as we worked to resolve such errors with our current auditors. As a result of correcting these misclassifications, in the annual report of Form 10-K/A, we have restated our Consolidated Statements of Cash Flows for the years ended December 31, 2006 and 2005. We have also revised our Notes to Consolidated Financial Statements as necessary to reflect these errors.

These errors resulted from a significant deficiency in the procedures to reconcile and review the impact of acquisitions on the Consolidated Statement of Cash Flows. The controls in place regarding reconciliation and review of cash flows related to acquisition activity represent a very narrow subset of the Company's financial closing and disclosure controls and an even narrower element of the Company's overall financial control structure. The Company does not believe that this restatement resulted from a breakdown in its general controls; rather represents an isolated classification error for specific types of acquisition payments. In light of these reclassification errors identified, we have implemented new procedures for reconciling and reviewing the Consolidated Statement of Cash Flows related to business acquisitions. Management believes that controls are now in place to ensure similar errors do not occur again.

In connection with the restatement and the filing of this Form 10-K/A, the Company re-evaluated, with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2006. The Company considered that the restatement of financial statements in prior filings made with the SEC may be an indicator of the existence of weaknesses in the design or operation of internal control over financial reporting. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's original conclusions with respect to the effectiveness of disclosure controls and procedures remain appropriate and that the disclosure controls and procedures were effective at a reasonable assurance level as of December 31, 2006. In arriving at such conclusion, management considered the facts and circumstances that resulted in the reclassifications in the statements of cash flows, including considerations with respect to its internal controls over financial reporting. Management determined that the reclassifications were not the result of a material weakness within internal control over financial reporting.

In concluding that the Company's disclosure controls and procedures were effective as of December 31, 2006, management considered, among other things, the circumstances that resulted in the restatement of its previously issued financial statements as more fully described in Note 2, Restatement of Financial Information, to the consolidated financial statements included within this Form 10-K/A.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Perficient, Inc.  
Austin, Texas

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Perficient, Inc. ("the Company") maintained effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations, or COSO, of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, the scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's consolidated operations, except for the acquired operations of Bay Street Solutions, Inc., Insolixen Corporation, and the Energy, Government and General Business ("EGG") division of Digital Consulting & Software Services, Inc. (collectively the "Acquired Companies"), each of which the Company acquired during 2006. The Acquired Companies represented 29% of the Company's total assets as of December 31, 2006, and 17% of the Company's revenues for the year ended December 31, 2006. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of the Acquired Companies' operations.

In our opinion, management's assessment that Perficient, Inc. maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated in all material respects, based on the criteria established in Internal Control-Integrated Framework issued by COSO. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control-Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Perficient, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our report on these financial statements dated, March 1, 2007, expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Houston, Texas

March 1, 2007, except Note 2

as to which date is August 13, 2007

**PART IV**

**Item 15. Exhibits, Financial Statement Schedules.**

(a) Financial Statements

1.

The following consolidated statements are included within Item 8 under the following captions:

<b>Index</b>	<b>Page</b>
Consolidated Balance Sheets	11
Consolidated Statements of Income	12
Consolidated Statements of Changes in Stockholders' Equity	13
Consolidated Statements of Cash Flows	14
Notes to Consolidated Financial Statements	15-33
Report of Independent Registered Public Accounting Firm	34

2. Financial Statement Schedules

No financial statement schedules are required to be filed by Items 8 and 15(d) because they are not required or are not applicable, or the required information is set forth in the applicable financial statements or notes thereto.

3. Exhibits

See Index to Exhibits on page 40.





August 13,  
2007

David S. Lundeen

\*BY: /s/ Paul E. Martin  
Paul E. Martin  
*Attorney-in-Fact*

## INDEX TO EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
2.1	Asset Purchase Agreement, dated as of June 10, 2005, by and among Perficient, Inc., Perficient iPath, Inc. and iPath Solutions, Ltd., previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 15, 2005 and incorporated herein by reference
2.2	Asset Purchase Agreement, dated as of September 2, 2005, by and among Perficient, Inc., Perficient Vivare, Inc., Vivare, LP and the other signatories thereto, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on September 9, 2005 and incorporated herein by reference
2.3	Agreement and Plan of Merger, dated as of April 6, 2006, by and among Perficient, Inc., PFT MergeCo, Inc., Bay Street Solutions, Inc. and the other signatories thereto, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on April 12, 2006 and incorporated herein by reference
2.4	Agreement and Plan of Merger, dated as of May 31, 2006, by and among Perficient, Inc., PFT MergeCo II, Inc., Insolixen, Corp., HSU Investors, LLC, Hari Madamalla, Steve Haglund and Uday Yallapragada, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 5, 2006 and incorporated herein by reference
2.5	Asset Purchase Agreement, dated as of July 20, 2006, by and among Perficient, Inc., Perficient DCSS, Inc. and Digital Consulting & Software Services, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on July 26, 2006 and incorporated herein by reference
3.1	Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
3.2	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Form 8-A filed with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934 on February 15, 2005 and incorporated herein by reference
3.3	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-8 (File No. 333-130624) filed on December 22, 2005 and incorporated herein by reference
3.4	Bylaws of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference

- 4.1 Specimen Certificate for shares of common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
- 4.2 Warrant granted to Gilford Securities Incorporated, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference

**Exhibit**

**Number Description**

- 4.3 Form of Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on January 17, 2002 and incorporated herein by reference
- 4.4 Form of Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-3 (File No. 333-117216) and incorporated by reference herein
- 10.1 Perficient, Inc. Amended and Restated 1999 Stock Option/Stock Issuance Plan, previously filed with the Securities and Exchange Commission as an Exhibit to our annual report on Form 10-K for the year ended December 31, 2005 and incorporated by reference herein
- 10.2 Form of Stock Option Agreement, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 and incorporated herein by reference
- 10.3 Perficient, Inc. Employee Stock Purchase Plan, previously filed with the Securities and Exchange Commission as Appendix A to the Registrant's Schedule 14A (File No. 001-15169) on October 13, 2005 and incorporated herein by reference
- 10.4 Form of Restricted Stock Agreement, previously filed with the Securities and Exchange Commission as an Exhibit to our annual report on Form 10-K for the year ended December 31, 2005 and incorporated by reference herein
- 10.5 Form of Indemnity Agreement between Perficient, Inc. and each of our directors and officers, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
- 10.6 Offer Letter, dated July 20, 2006, by and between Perficient, Inc. and Mr. Paul E. Martin, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on July 26, 2006 and incorporated herein by reference
- 10.7 Offer Letter Amendment, dated August 31, 2006, by and between Perficient, Inc. and Mr. Paul E. Martin, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on September 1, 2006 and incorporated herein by reference
- 10.8† Employment Agreement between Perficient, Inc. and John T. McDonald dated March 28, 2006, and effective as of January 1, 2006, previously filed with the Securities and Exchange Commission as an Exhibit to our annual report on Form 10-K for the year ended December 31, 2005 and incorporated by reference herein
- 10.9† Employment Agreement between Perficient, Inc. and Jeffrey Davis dated August 3, 2006, and effective as of July 1, 2006 filed with the Securities and Exchange Commission as an

Exhibit to our Quarterly Report on Form 10-Q filed on August 9, 2006 and incorporated herein by reference

- 10.10 Amended and Restated Loan and Security Agreement by and among Silicon Valley Bank, KeyBank National Association, Perficient, Inc., Perficient Canada Corp., Perficient Genisys, Inc., Perficient Meritage, Inc. and Perficient Zettaworks, Inc. dated effective as of June 3, 2005, previously filed with the Securities and Exchange Commission as an Exhibit to our annual report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference
- 10.11 Amendment to Amended and Restated Loan and Security Agreement, dated as of June 29, 2006, by and among Silicon Valley Bank, KeyBank National Association, Perficient, Inc., Perficient Genisys, Inc., Perficient Canada Corp., Perficient Meritage, Inc., Perficient Zettaworks, Inc., Perficient iPath, Inc., Perficient Vivare, Inc., Perficient Bay Street, LLC and Perficient Insolexen, LLC, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on July 5, 2006 and incorporated herein by reference

**Exhibit**

**Number Description**

- 10.12 Lease by and between Cornerstone Opportunity Ventures, LLC and Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our annual report on Form 10-K for the year ended December 31, 2005 and incorporated by reference herein
- 10.13 First Amended and Restated Investor Rights Agreements dated as of June 26, 2002 by and between Perficient, Inc. and the Investors listed on Exhibits A and B thereto, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on July 18, 2002 and incorporated by reference herein
- 10.14 Securities Purchase Agreement, dated as of June 16, 2004, by and among Perficient, Inc., Tate Capital Partners Fund, LLC, Pandora Select Partners, LP, and Sigma Opportunity Fund, LLC, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 23, 2004 and incorporated by reference herein
- 14.1 Corporate Code of Business Conduct and Ethics, previously filed with the Securities and Exchange Commission on Form 10-KSB/A for the year ended December 31, 2003 and incorporated by reference herein
- 14.2 Financial Code of Ethics, previously filed with the Securities and Exchange Commission on Form 10-KSB/A for the year ended December 31, 2003 and incorporated by reference herein
- 21.1 Subsidiaries (included as an exhibit to our Annual Report on Form 10-K filed on March 5, 2007)
- 23.1\* Consent of BDO Seidman, LLP
- 24.1 Power of Attorney (included on the signature page to our Annual Report on Form 10-K filed on March 5, 2007)
- 31.1\* Certification by the Chief Executive Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2\* Certification by the Chief Financial Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1\* Certification by the Chief Executive Officer and Chief Financial Officer of Perficient, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

\* Filed herewith.



