PERFICIENT

FOCUS • EXPERTISE • RELIABILITY

2000

ANNUAL REPORT

corporate profile

PERFICIENT IS AN EXPERT IN HELPING GLOBAL 2000 COMPANIES WEB-ENABLE COMPLEX ENTERPRISE SYSTEMS. OUR MIDDLEWARE, CONTENT MANAGEMENT AND ENTERPRISE PORTAL SOLUTIONS HAVE ALREADY HELPED MORE THAN 500 OF THE GLOBAL 2000:

- REACH NEW MARKETS, REDUCE COSTS AND STRENGTHEN THEIR SUPPLY CHAINS,
- PERSONALIZE RELATIONSHIPS WITH ONLINE CUSTOMERS AND MANAGE COMPLEX CONTENT CHAINS, AND
- ENABLE THEIR EMPLOYEES TO COLLABORATE AND SHARE KNOWLEDGE ASSETS ENTERPRISE-WIDE.

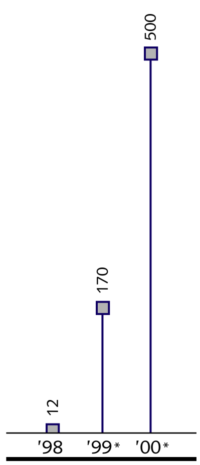
PERFICIENT HAS BUILT A LEVEL OF EXPERTISE IN THESE DISCIPLINES THAT IS UNRIVALED IN THE INDUSTRY. WE DELIVER THE HEAVY-LIFTING TECHNOLOGY CAPABILITIES THAT REDUCE PROJECT RISK AND SHORTEN TIME-TO-VALUE FOR IT INVESTMENTS.

FINANCIAL HIGHLIGHTS

(000's except per share data)

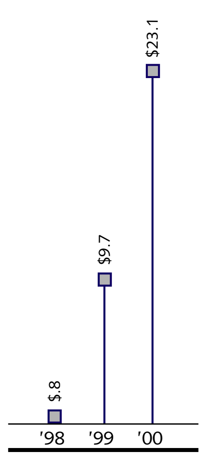
	1998	1999(1)	2000(1)
Consulting revenues	$ 826(2)	$9,711	$23,111
Gross margin	425	4,550	11,689
EBITDA	78	(914)	302
Pro forma net income	49	(8)	298
Pro forma EPS	$0.03	$ 0.00	$ 0.04

(1) Pro forma, including results from significant acquisitions made during 2000
(2) Revenue as originally reported includes out of pocket expenses

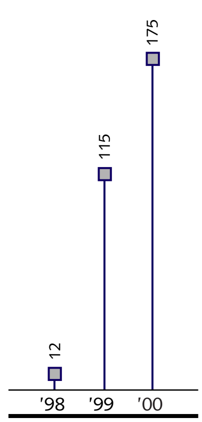


CLIENT PROJECTS

*Projects completed by Perficient and by companies acquired in 1999 and 2000



REVENUE
($ IN MILLIONS)



HEADCOUNT

John T. McDonald
Chairman of the Board and CEO

Sam J. Fatigato
President and COO

Focus, expertise and reliability. These are the qualities that guided Perficient's success in 2000, setting us apart from myriad competitors and enabling us to achieve record growth and profitability.

In a period of market turmoil and hype, we avoided the all-things-to-all-people approach championed by many in our industry. Instead, we pursued a focused, inch-wide-and-mile-deep strategy of providing services selectively in those areas where enterprise customers have demonstrated a sustained need—as well as a willingness to pay for value delivered.

We did this because we believed from the start that a sustainable, profitable software services business requires a Global 2000 customer base. We knew that to be relevant to global enterprises, an emerging services firm must provide unrivaled expertise and deliver reliable results. And our success has proven us right.

In 2000, we successfully completed cutting-edge e-business architecture and implementation projects for more than 200 Global 2000 clients. Clients such as Ariba, Citibank, Hewlett-Packard, The Associates, Kemper Insurance, Penguin, Key Bank, MCI WorldCom, Nokia, and Merrill Lynch. These clients have expressed clear approval with their repeat business. In 2000, more than three quarters of our revenues came from repeat business with existing customers. That's the kind of loyal customer base that can keep a services firm healthy even when the market gets tight.

Perficient's success in 2000 can also be traced to our focused expertise in three rapidly growing segments of the Internet software market—middleware, content management and enterprise portal software—market segments that are large, growing and require and support significant software services expertise.

A powerful example of the value of our focused approach is the landmark outsourcing services agreement we signed in 2000 with IBM. Under this agreement, which is worth up to $73.5 million in revenue to Perficient over three years, we provide expert-level architecture, integration and training services for IBM's market-leading WebSphere™ software platform products. It should be noted that IBM last year announced an additional $1 billion investment in their WebSphere products and that, according to Giga Information Group, IBM owns nearly a quarter of the market for middleware—a market they forecast to grow to $9 billion by 2003.

Among our other achievements in 2000:

- Revenue, including the effect of significant acquisitions, increased 138% to $23,111,000 compared with $9,711,000 in 1999.
- Pro forma net income rose to $298,000, or $.04 diluted earnings per share (compared to $0.00 per share in 1999).
- Gross margin, as a percentage of revenue, was 50.6%, among the best in our industry.
- Our employee base stands at 175 currently, up from 115 at year-end 1999.
- *Computerworld* included us on its prestigious list of "100 Emerging Companies To Watch" in 2001.

Of course, success has meaning beyond financial results and industry accolades. In the end, it's about our people. The commitments we make to our partners and customers are backed by the promise we keep with our employees: to hire and retain the best people, provide them with the best resources and invest and reinvest in their skills. An example is our Java Bootcamp, an immersion training program designed to keep Perficient on the cutting-edge by educating our people on the latest Java 2, Enterprise Edition (J2EE) technologies.

We are proud of our accomplishments and we thank our shareholders, customers, employees and partners for their continued confidence in our ability to succeed. We will honor that trust by achieving even greater heights in 2001.

John T. McDonald
Chairman and CEO

Sam J. Fatigato
President and COO

"We knew that to be relevant to global enterprises, an emerging services firm must provide unrivaled expertise and deliver reliable results. And our success has proven us right."

MILESTONES

FEBRUARY 17, 2000
Perficient Acquires Leading Internet Consultancy, Expands to Five U.S. Markets and Europe

APRIL 18, 2000
Perficient Named to LocalBusiness.com's 50 to Watch List

MAY 9, 2000
Perficient, Inc. Announces Relationship with IBM to Provide Professional Services

JUNE 12, 2000
Perficient Founder Named Finalist for Entrepreneur of the Year

MILESTONES

JULY 25, 2000
Perficient Q2 Revenues Soar 826% to New Record

NOVEMBER 2, 2000
Perficient Signs Major Multi-Year Services Agreement with IBM

NOVEMBER 28, 2000
Perficient Named to *Computerworld*'s Emerging Companies to Watch in 2001 List

JANUARY 30, 2001
Perficient, Inc. Reports Record 2000 Revenues; up 138%

enterprise solutions

LEVERAGING TECHNOLOGY FOR GLOBAL 2000 CUSTOMERS

Global 2000 companies face the challenge of Web-enabling their technology systems to effectively compete in the marketplace. They need a partner that understands the latest technologies and has a track record of results. With our deep expertise in middleware, content management and enterprise portal services, and our ability to integrate Web technology in a manner that leverages existing systems, we deliver reliable solutions designed to give customers a competitive edge.

	Discipline	Partner	Solution
Middleware and Web Services	Perficient offers a complete range of transaction middleware and Web services. We provide project management professionals who combine their technology experience and business knowledge to effectively manage the most complex projects. Our expert teams deliver solutions across three middleware segments, including: • *eCommerce* • *Enterprise Solutions* • *Systems Integration*	IBM	For MCI WorldCom, Perficient implemented an IBM WebSphere™-based solution for multiple Web sites. Designed to leverage enterprise JavaBeans and Java Servlets, all are 24x7 production sites aimed at more than 25,000 MCI WorldCom employees, including their entire worldwide sales force. Perficient completed more than 90 middleware engagements in 2000 for clients like American Express, Caterpillar, Ford and EDS, among others.
Content Management	Perficient first began working in the content management space more than three years ago. Today, relying on teams of content management specialists, we have implemented solutions ranging in size and scope for Global 2000 companies, mid-size environments and startups. We are the experts in developing scalable, effective content management solutions.	VIGNETTE	Hewlett-Packard required a content management solution that would disseminate information from their disparate back-end legacy systems to hundreds of thousands of end users. The company chose Vignette's StoryServer™ platform, and tapped Perficient to architect and engineer their entire solution. Perficient developed 114 content management solutions in 2000 for clients like Ariba, Charles Schwab, Lands' End, Sun Microsystems and SBC Communications.
Enterprise Portal	Perficient's enterprise portal practice is responsible for developing and coordinating portal communications solutions for some of the largest companies in the world. As a result of the often complex nature of large enterprise portal projects, our consultants are called upon to provide the widest range of skills of any professionals in the IT Industry.	plumtree	BP Amoco required a customized portal solution for its diverse business, which would allow employees to easily access and manage information located in a variety of areas. Perficient provided the technical expertise and infrastructure support for the large-scale project. The portal solution developed by Perficient now serves more than 35,000 BP Amoco employees worldwide. Perficient exceeded 70 enterprise portal projects in 2000 for customers such as K-Mart, Merck, the United Nations and Procter & Gamble.

professional leaders

REINVENTING RELATIONSHIPS BETWEEN PEOPLE, TECHNOLOGY AND INNOVATION

Perficient deploys small, high-impact teams of expert consulting professionals who have one simple objective—decrease the end-customer's "time-to-value" for the solution. Our model provides an environment for fast-paced professional and personal growth that rewards the innovative thinking valued by customers. Our people represent the best in the IT services industry today—combining an exceptional command of current technologies with the integration skills required to conduct real e-business. This talent, plus our ability to focus on sub-$1 million deployments and execute them with speed and precision, is unrivaled in the IT services industry.

"Perficient's track record in delivering scalable, integrated and reliable e-business solutions, combined with their commitment to the J2EE platform, make them one of IBM's most reliable business partners."

—Paraic Sweeney,
VP of WebSphere Marketing, IBM

Perficient's philosophy is simple, and it revolves around people: We partner with the leading Internet companies in the marketplace, and our people work with the technologies and clients that are leading the charge into the Web-enabled world. Our consultants get the opportunity to work with the business leaders and early adopters that are turning heads in the industry. We've created a learn-and-share environment where people can exchange ideas through events like our Java Bootcamp workshops, Technology Team Webcasts and the annual all-employee TechXchange conference. Our enterprise portal provides the setting for a daily dose of knowledge sharing and internal communication. All this leads to bottom-line results for Global 2000 companies: by deploying technology from our partners, we help customers stay on top and ahead of their competition, while maintaining an innovative edge to their business.

financial review

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto and the other financial information included elsewhere in this Annual Report. In addition to historical information, this management's discussion and analysis of financial condition and results of operations and other parts of this Annual Report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking information as a result of certain factors, as discussed more fully in our filings with the Securities and Exchange Commission, including our 2000 Form 10-KSB.

We were incorporated in September 1997 and began generating revenue in February 1998. We generate revenues from professional services performed primarily for our software company partners and their end-user customers. To date, our partners have consisted of Internet software companies and we expect that Internet software companies will be important partners for the foreseeable future. The majority of our revenue is derived from our partners rather than from our end-user customers.

We established our first partner relationship with Vignette Corporation, an Internet relationship management software company, in February 1998. During 1999 and 2000, we have established partner relationships with several additional Internet software companies. In October 2000, we entered into a new services agreement with IBM under which we will provide deployment, integration and training services to IBM's WebSphere customers. The agreement provides for us to render services over a three-year period not to exceed $73.5 million in total value. Revenues from Vignette, IBM, and Plumtree would have comprised approximately 26%, 25%, and 8%, respectively, of pro forma revenues for the year ended December 31, 2000 (after giving effect to the acquisition of Compete). Accordingly, any deterioration in our relationship with IBM, Vignette, or Plumtree could have a material adverse affect on our consulting revenue. Generally, our partner agreements may be terminated at any time by our partners or by us. Our agreement with IBM, however, provides generally that we receive four month's notice of any termination. These agreements generally do not obligate our partners to use our services for any minimum amount or at all, and our partners may use the services of our competitors. Under our agreement with Vignette, we are restricted, for as long as the agreement is in place, from performing services for their competitors.

We derive our revenues from professional services that are provided primarily on a time and materials basis. Revenues are recognized and billed monthly by multiplying the number of hours expended by our professionals in the performance of the contract by the established billing rates. We are reimbursed for direct expenses allocated to a project such as airfare, lodging and meals. Consequently, these direct reimbursements are excluded from revenues.

Our revenues and operating results are subject to substantial variations based on our partners' sales and expenditures and the frequency with which we are chosen to perform services for their end-user customers. Revenues from any given customer will vary from period to period. We expect, however, that significant customer concentration will continue for the foreseeable future. To the extent that any significant customer uses less of our services or terminates its relationship with us, our revenues may decline substantially.

Our gross margins are affected by trends in the utilization rate of our professionals, defined as the percentage of our professionals' time billed to customers, divided by the total available hours in a period. If a project ends earlier than scheduled, or, as has been the case, we retain professionals in advance of receiving project assignments, our utilization rate will decline and adversely affect our gross margins.

The number of technology professionals who have agreed to perform services for the Company has increased from eight at December 31, 1998 to approximately 150 currently. We intend to increase the number of our technology professionals significantly. Our personnel costs represent a high percentage of our operating expenses and are relatively fixed in advance of each quarter. Accordingly, if revenues do not increase at a rate equal to expenses, we will incur continuing losses and our business, financial condition, operating results and liquidity will be materially and adversely affected.

On May 1, 2000, we acquired all the outstanding shares and assumed all outstanding options of Compete, Inc. The aggregate purchase price of Compete consisted of (1) $3,425,000 in cash, (2) $2,527,500 in non-interest bearing promissory notes to be repaid within six months following the closing, (3) 2,003,866 shares of common stock, of which 1,001,933 shares are subject to adjustment or forfeiture and which are now being held in escrow, and (4) the assumption of Compete's outstanding employee options. The total cost of the acquisition, including the assumption of outstanding options and transaction costs, was approximately $55.2 million. The acquisition was accounted for as a purchase business combination. Accordingly, the acquired net assets were recorded at their estimated fair values at the effective date of the acquisition and the results of operations of Compete will be included with ours for the periods subsequent to the acquisition date.

On January 3, 2000, we acquired LoreData, Inc. for an aggregate purchase price of approximately $2.4 million, consisting of $385,000 cash, 30,005 shares of common stock, and 131,709 shares of common stock that were held in escrow until being released in January 2001.

On February 7, 2000, we sold 400,000 shares of common stock in a private placement for net proceeds of approximately $5,258,000.

RESULTS OF OPERATIONS

Fiscal Year Ended December 31, 1999 Compared To December 31, 2000

Consulting Revenues. Revenues increased from $2,648,000 in 1999 to $19,964,000 in 2000. The increase in revenues reflected the increase in the number of partners, projects performed and in the number of technology professionals performing services. The acquisition of Compete on May 1, 2000 also contributed to the increase in revenues for 2000. On a pro forma basis, including the results of the acquisitions of Compete and LoreData, revenues increased from $9,711,000 in 1999 to $23,111,000 in 2000. During 2000, 30% of our revenues was derived from Vignette and 25% from IBM (on a pro forma basis including the results of operations of Compete, Vignette accounted for 26% of total pro forma revenues and IBM accounted for 25% of total pro forma revenues).

Cost of Consulting Revenues. Cost of revenues, consisting of direct costs, primarily salaries and benefits for technology professionals assigned to projects, and of project related expenses, increased from $1,034,000 in 1999 to $9,931,000 in 2000. The increase in cost of consulting revenue is directly attributable to the increase in the number of technology professionals employed by us. The number of consultants employed by us increased from 43 at December 31, 1999 to approximately 150 at December 31, 2000.

Gross Margin. Gross margin increased from $1,614,000 in 1999 to $10,033,000 in 2000. Gross margin as a percentage of consulting revenues was 61% for 1999 and 50% for 2000. The decrease in gross margin as a percentage of consulting revenues is primarily due to the increased number of consultants during the period in anticipation of future projects, resulting in lower effective utilization rates during the period.

Selling, General and Administrative. Selling, general and administrative expenses consist primarily of marketing activities to solicit partners, salaries and benefits and non-reimbursable travel costs and expenses. Selling, general and administrative expenses increased from $2,197,000 in 1999 to $10,580,000 in 2000. Selling, general and administrative expenses as a percentage of consulting revenues was 83% for 1999 and 53% for 2000. The increase in selling, general and administrative expenses and such expenses was related to our increased overhead, including recruiting, administrative activities and marketing to support the development of existing or new partnerships and the resulting growth in our workforce. We expect these expenses to increase in absolute dollar amounts in connection with our planned expansion.

Stock Compensation. Stock compensation expense consists of non-cash compensation arising from certain sales of stock and option grants to officers, directors or other affiliated persons. We have recognized $880,000 in non-cash compensation in connection with the sale of stock that occurred in January 1999. In addition, we have recorded in stockholders' equity on our balance sheet aggregate deferred stock compensation totaling $228,000 in connection with stock options that were granted in January 1999. Quarterly stock compensation expense of approximately $19,000 will be recognized over the three-year vesting period ending January 2002. We have recognized approximately $152,000 in non-cash compensation expense during 1999 and 2000 relating to the vesting of these options.

Intangibles Amortization. Intangibles amortization expense consists of amortization of goodwill arising from our acquisitions of LoreData, Inc. in January 2000, Compete, Inc. in May 2000, and Core Objective, Inc. in November 2000. We are amortizing the goodwill associated with these acquisitions over a three-year period. Total intangibles amortization expense for 2000 was $12,942,000. We expect to amortize in excess of $4,800,000 in goodwill per quarter through 2003. Goodwill net of accumulated amortization represented approximately 83% and 91% of total assets and stockholders' equity, respectively, at December 31, 2000.

Interest Income (Expense). Interest income (expense) consists of interest income of $263,000 on cash and investments, imputed interest expense of $108,000 associated with the non-interest bearing note issued in connection with the acquisition of Compete, and interest expense of $43,000, mainly associated with borrowings under our line of credit. The increase in interest income for 2000 was due to interest income from cash and investment balances on hand as a result of our initial public offering in July 1999 and our private placement in February 2000. The increase in interest expense in 2000 is due to the $2.5 million note payable related to the Compete acquisition and the borrowings under our line of credit during 2000.

LIQUIDITY AND CAPITAL RESOURCES

We received approximately $6.3 million in July 1999 from an initial public offering of 1,000,000 shares of our common stock, net of underwriting discounts, commissions and expenses. The primary purposes of the initial public offering were to obtain additional equity capital, create a public market for our common stock and facilitate future access to public markets. Pending the use of proceeds, we had invested the net proceeds of the offering in investment grade, interest-bearing securities. Prior to the offering, we financed our operations primarily through equity financing and bank borrowings.

On February 7, 2000, we sold 400,000 shares of common stock at $14 per share in a private placement for net proceeds of approximately $5,258,000. We used the proceeds to fund the cash portion of the purchase price and the promissory note for the acquisition of Compete and for general corporate purposes.

In connection with the acquisition of Compete, which closed on May 1, 2000, we paid to the shareholders and vested option holders of Compete approximately $3,425,000 in cash and we issued a $2,527,500 promissory note that was paid on November 1, 2000. We used the proceeds of the private placement to fund the initial cash payment, and utilized the remaining private placement funds and certain proceeds from the line of credit to fund the November 1, 2000 note payment.

We have a line of credit facility with Silicon Valley Bank, which provides for us to borrow up to $6,000,000, subject to certain borrowing base calculations as defined. Borrowings under this agreement, which expires June 29, 2001, bear interest at the bank's prime rate plus 0.85%. As of December 31, 2000, there was $1,500,000 borrowed under this loan agreement. Prior to that, we had an agreement with the same bank, which allowed us to borrow up to $1,000,000 against our qualifying accounts receivables. In connection with this bank agreement, we issued warrants to the Bank to acquire up to 3,750 shares of our common stock at $8 per share.

In connection with the acquisition of Core Objective, Inc. in November 2000, we issued a $162,000 promissory note payable in May 2001. Additionally, we assumed $63,000 of notes payable to shareholders which were paid in February 2001.

Cash used in operations for the year ended December 31, 2000 was $2,796,000. As of December 31, 2000, we had $842,000 in cash and working capital of $3,374,000, and $4,500,000 available ($3,700,000 available under the borrowing base calculation) under our line of credit facility discussed above.

If our capital is insufficient to fund our activities in either the short or long term, we may need to raise additional funds. 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued the Statement of Financial Accounting Standard (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Deferral of the Effective Date of FASB Statement No. 133*, which is effective for fiscal years beginning after June 15, 2000. This statement requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 will be effective for our financial statements for the year ending December 31, 2001. We do not believe that this statement will have a material impact on our financial position or results of operations.

The FASB recently issued Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*. This interpretation provides guidance related to the implementation of APB 25, *Accounting for Stock Issued to Employees*. This interpretation is to be applied prospectively to all new awards, modifications to outstanding awards and changes in employee status on or after July 1, 2000. For changes made after December 15, 1998 to awards that affect exercise prices of the awards, we must prospectively account for the impact of those changes. We do not believe the full adoption of this interpretation will have a material impact on our financial position or results of operations.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, which provides guidance on the recognition, presentation, and disclosure of revenue in financial statements. We believe our current revenue recognition policies and practices are materially consistent with this statement, and accordingly, do not believe this statement will have a material impact on our financial position or results of operations.

SUMMARY UNAUDITED PRO FORMA STATEMENTS OF OPERATIONS (INCLUDING THE EFFECT OF MATERIAL ACQUISITIONS)

The following unaudited pro forma statements of operations (including the effect of material acquisitions) give effect to the acquisition of LoreData, Inc. and the acquisition of Compete, Inc. as if these transactions had been consummated at the beginning of each period presented. The unaudited pro forma statements of operations exclude the impact of goodwill amortization, stock compensation, depreciation and one time acquisition related charges. The unaudited pro forma statements of operations do not purport to be indicative of the results of operations that would have been obtained had such acquisitions been completed as of the assumed dates and for the periods presented or of future results. The results do not include any information related to Core Objective, Inc. acquired in November 2000, which did not represent a material acquisition. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes relating to those statements included elsewhere in this Annual Report. These pro forma statements of operations are presented because management believes pro forma net income (loss) is a widely accepted indicator of a company's operating performance. Pro forma net income measures presented may not be comparable to similarly titled measures presented by other companies. Pro forma net income (loss) is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income (loss) or net income (loss) as an indicator of operating performance or to the statement of cash flows as a measure of liquidity. Our historical GAAP basis cash used in operations, excluding the pro forma effects of material acquisitions, was approximately $665,000 and $2,796,000 during 1999 and 2000, respectively.

PERFICIENT, INC.
PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS INCLUDING THE EFFECT OF SIGNIFICANT ACQUISITIONS

	Year Ended December 31,	
	1999	2000
	(unaudited)	
Consulting revenues	$9,710,818	$23,110,578
Cost of consulting revenues	5,160,861	11,421,371
Gross margin	4,549,957	11,689,207
Selling, general and administrative	4,508,162	11,311,092
Total pro forma operating income(1)	41,795	378,115
Interest income (expense), net	(54,631)	94,239
Pro forma provision (benefit) for income taxes(2)	(4,749)	174,771
Pro forma net income (loss)(1)	$ (8,087)	$ 297,583
Pro forma net income (loss) per share(1):		
Basic	$ —	$ 0.06
Diluted	$ —	$ 0.04
Shares used in computing basic pro forma net income (loss) per share	4,032,494	4,940,260
Shares used in computing diluted pro forma net income (loss) per share	4,032,494	6,855,105

(1) Pro forma operating income, pro forma net income (loss) and pro forma net income (loss) per share exclude the impact of goodwill amortization, depreciation, stock compensation, and one time acquisition related charges.

(2) Pro forma net income (loss) and pro forma net income (loss) per share include a tax provision (benefit) at an assumed effective rate of 37%

CONSOLIDATED BALANCE SHEETS

	December 31, 1999	December 31, 2000
ASSETS		
Current assets:		
Cash	$ 5,818,918	$ 842,481
Accounts receivable, net of allowance for doubtful accounts of $68,058 in 1999 and $563,357 in 2000	563,334	7,038,794
Income tax receivable	10,916	10,916
Other current assets	142,422	42,400
Total current assets	6,535,590	7,934,591
Property and equipment:		
Hardware	69,442	657,648
Furniture and fixtures	3,415	260,738
Leasehold improvements	—	106,688
Software	41,783	119,804
Accumulated depreciation	(33,813)	(340,472)
Net property and equipment	80,827	804,406
Intangible assets:		
Excess of cost over fair value of assets	—	58,499,743
Accumulated amortization	—	(12,941,570)
Net intangible assets	—	45,558,173
Other noncurrent assets	—	317,772
Total assets	$ 6,616,417	$ 54,614,942
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 165,176	$ 358,779
Note payable to related party	—	224,969
Line of credit	—	1,500,000
Current portion of note payable	—	3,338
Current portion of capital lease obligation	—	81,415
Other current liabilities	199,150	2,392,568
Total current liabilities	364,326	4,561,069
Note payable, less current portion	—	7,232
Capital lease obligation, less current portion	—	72,694
Total liabilities	364,326	4,640,995
Commitments and contingencies		
Stockholders' equity:		
Common Stock, $.001 par value; 20,000,000 shares authorized; 3,503,333 shares in 1999 and 6,252,233 shares in 2000 issued and outstanding	3,503	6,252
Additional paid-in capital	7,777,392	65,049,514
Unearned stock compensation	(152,000)	(76,000)
Accumulated other comprehensive loss	—	(1,665)
Retained deficit	(1,376,804)	(15,004,154)
Total stockholders' equity	6,252,091	49,973,947
Total liabilities and stockholders' equity	$ 6,616,417	$ 54,614,942

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	1999	2000
Consulting revenue	$ 2,647,878	$ 19,963,759
Cost of consulting revenue	1,034,331	9,931,064
Gross margin	1,613,547	10,032,695
Operating expenses:		
Selling, general and administrative	2,197,560	10,579,652
Stock compensation	956,000	76,000
Intangibles amortization	—	12,941,570
Total operating expenses	3,153,560	23,597,222
Loss from operations	(1,540,013)	(13,564,527)
Interest income	127,518	263,263
Interest expense	(13,380)	(151,086)
Loss before income taxes	(1,425,875)	(13,452,350)
Provision (benefit) for income taxes	(20,912)	175,000
Net loss	$(1,404,963)	$(13,627,350)
Basic and diluted net loss per share	$ (0.47)	$ (2.96)

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned Stock Compen-sation	Accumulated Other Comprehensive Loss	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance at January 1, 1999	2,000,000	$2,000	$ 148,000	$ —	$ —	$ 28,159	$ 178,159
Issuance of common stock	1,503,333	1,503	7,401,392	—	—	—	7,402,895
Unearned compensation	—	—	228,000	(228,000)	—	—	—
Amortization of unearned compensation	—	—	—	76,000	—	—	76,000
Net loss	—	—	—	—	—	(1,404,963)	(1,404,963)
Balance at December 31, 1999	3,503,333	3,503	7,777,392	(152,000)	—	(1,376,804)	6,252,091
Issuance of common stock, net of issuance costs	400,000	400	5,257,691	—	—	—	5,258,091
Issuance of common stock and options in purchase of businesses	2,285,664	2,286	51,858,024	—	—	—	51,860,310
Stock options exercised	62,736	63	57,025	—	—	—	57,088
Other	500	—	99,382	—	—	—	99,382
Amortization of unearned compensation	—	—	—	76,000	—	—	76,000
Foreign currency translation adjustment	—	—	—	—	(1,665)	—	(1,665)
Net loss	—	—	—	—	—	(13,627,350)	(13,627,350)
Total comprehensive loss							(13,629,015)
Balance at December 31, 2000	6,252,233	$6,252	$65,049,514	$ (76,000)	$(1,665)	$(15,004,154)	$ 49,973,947

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	1999	2000
OPERATING ACTIVITIES		
Net loss	$(1,404,963)	$(13,627,350)
Adjustments to reconcile net loss to cash used in operations:		
Depreciation	22,950	270,270
Intangibles amortization	—	12,941,570
Non-cash stock compensation	956,000	76,000
Non-cash interest expense	—	107,810
Loss from disposal of fixed assets	—	502
Deferred income taxes	(1,350)	—
Changes in operating assets and liabilities (net of the effect of acquisitions):		
Accounts receivable	(398,373)	(3,921,449)
Other assets	(142,422)	(187,890)
Income tax receivable	(10,916)	—
Accounts payable	146,536	152,810
Income tax payable	(19,219)	—
Accrued liabilities	186,511	1,391,286
Net cash used in operating activities	(665,246)	(2,796,441)
INVESTING ACTIVITIES		
Purchase of property and equipment	(61,727)	(610,373)
Purchase of businesses, net of cash acquired	—	(7,841,603)
Proceeds from disposal of fixed assets	—	204,977
Net cash used in investing activities	(61,727)	(8,246,999)
FINANCING ACTIVITIES		
Payments on capital lease obligation	—	(41,866)
Proceeds from short-term borrowings	802,673	1,543,531
Payments on short-term borrowings	(802,673)	(833,658)
Proceeds from stock issuances, net	6,522,895	5,405,560
Net cash provided by financing activities	6,522,895	6,073,567
Effect of exchange rate on cash and cash equivalents	—	(6,564)
Change in cash and cash equivalents	5,795,922	(4,976,437)
Cash and cash equivalents at beginning of year	22,996	5,818,918
Cash and cash equivalents at end of year	$ 5,818,918	$ 842,481
Supplemental disclosures:		
Interest paid	$ 13,380	$ 43,276
Non-cash activities:		
Common stock and options issued in purchase of businesses	$ —	$ 51,869,311
Issuance of note payable in purchase of business	$ —	$ 162,215
January 12, 1999 issuance of 500,000 common shares in exchange for shareholder receivable	$ 250,000	$ —

See accompanying notes.

1. BUSINESS OVERVIEW

Perficient, Inc. (the "Company") is a software services firm that uses emerging technologies to web-enable complex enterprise systems. The Company builds deep expertise around a targeted set of core technologies and products through unique outsourcing partnerships (called "Virtual Services Organizations" or "VSOs") with Internet software companies.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

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

Revenue Recognition

Consulting revenues are comprised of revenue from consulting fees recognized on a time and material basis as performed.

Cash Equivalents

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

Advertising Expense

The cost of advertising is expensed as incurred. Advertising cost for the years ended December 31, 1999 and 2000 were not material.

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is computed using the straight-line method over the useful lives of the assets (generally 2 to 5 years). Leasehold improvements are amortized over the shorter of the life of the lease or the estimated useful life of the assets. Amortization of assets recorded under capital leases is computed using the straight-line method over the shorter of the asset's useful life or the term of the lease, and such amortization expense is included with depreciation expense.

Intangible Assets

Intangible assets, primarily resulting from purchase business combinations, are being amortized using the straight-line method over a three-year period for excess of cost over fair value of net assets acquired.

Impairment of Long-Lived Assets

The Company periodically reviews the carrying amounts of property and equipment, identifiable intangible assets and excess of cost over fair value of net assets acquired both purchased in the normal course of business and acquired through acquisition to determine whether current events or circumstances, as defined in Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, warrant adjustments to such carrying amounts by considering, among other things, the future cash inflows expected to result from the use of the asset and its eventual disposition less the future cash outflows expected to be necessary to obtain those inflows. At this time, future cash inflows exceed future cash outflows; thus, no impairment loss has been recognized. Management reviews the valuation and amortization periods of excess of cost over fair value of net assets acquired on a periodic basis, taking into consideration any events and circumstances which might result in diminished fair value or revised useful life. No events or circumstances have occurred to warrant a diminished fair value or reduction in the useful life of excess of cost over fair value of net assets acquired.

Income Taxes

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

Foreign Currency Transactions

For the Company's foreign subsidiaries, the functional currency has been determined to be the local currency, and therefore, assets and liabilities are translated at year end or period end exchange rates, and income statement items are translated at average exchange rates prevailing during the year or period. Such translation adjustments are recorded in aggregate as a component of stockholders' equity. Gains and losses from foreign currency denominated transactions are included in other income (expense), and were not material during 1999 and 2000.

Segments

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

Earnings Per Share

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

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options. As allowed by SFAS 123, the Company has elected to account for its employee stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting For Stock Issued To Employees*, ("APB 25").

Fair Value of Financial Instruments

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

Reclassification

Certain amounts from prior periods have been reclassified to conform to the current period presentation. Reimbursable expenses of $507,000 during 1999 are included as a component of cost of consulting revenue in the current period presentation.

Recently Issued Accounting Standards

The Financial Accounting Standards Board issued Statement No. 133, *Accounting For Derivative Instruments And Hedging Activities*, as amended by Statement No. 137 and Statement No. 138, which is effective for the Company's fiscal year and quarters beginning January 1, 2001. This statement requires companies to record derivatives on the balance sheet as assets or liabilities measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Management believes that this statement will not have a material impact on the Company's financial position or results of operations because of the Company's minimal use of derivative financial instruments.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin No. 101, *Revenue Recognition In Financial Statements* ("SAB 101"), which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. The adoption of SAB 101 did not have a material impact on the Company's financial position or results of operations.

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, which further clarifies APB 25. Management believes that this Interpretation will not have a material impact on the Company's financial position or results of operations.

3. NET INCOME (LOSS) PER SHARE

Computations of the net loss per share are as follows:

	Year Ended December 31,	
	1999	2000
Net loss	$(1,404,963)	$(13,627,350)
Weighted-average shares of common stock outstanding	3,000,556	5,409,353
Less common stock subject to contingency	—	(803,070)
Shares used in computing basic net loss per share	3,000,556	4,606,283
Basic and diluted net loss per share	$ (0.47)	$ (2.96)

Diluted net loss per share is the same as basic net loss per share, as the effect of the assumed exercise of stock options and warrants and the issuance of contingently issuable shares issued in business combinations, are anti-dilutive due to the Company's net loss for all periods presented. Diluted net loss per share excludes common stock equivalents of 251,750 and 1,521,699 for 1999 and 2000, respectively.

4. CONCENTRATION OF CREDIT RISK AND SIGNIFICANT CUSTOMERS

Cash and accounts receivable potentially expose the Company to concentrations of credit risk. Excess cash is placed with highly rated financial institutions. The Company provides credit, in the normal course of business, to its customers. The Company generally does not require collateral or up front payments. The Company performs ongoing 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. One customer accounted for approximately 97% and 11% of accounts receivable and 96% and 30% of revenues at December 31, 1999 and 2000, and for the years then ended, respectively. A second customer accounted for approximately 35% of accounts receivable and 25% of revenues at December 31, 2000 and for the year then ended.

5. EMPLOYEE BENEFIT PLAN

The Company has a qualified 401(k) profit sharing plan available to full-time employees who meet the plan's eligibility requirements. This defined contribution plan permits employees to make contributions up to maximum limits allowed by the Internal Revenue Code. The Company, at its discretion, matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of vesting services. The Company made matching contributions equal to 25% of the first 6% of employee contributions totaling $109,000 during 2000, which vest over a three-year period of service. The Company made no contributions to the plan during 1999. The Company's related costs for the plan during 2000 were approximately $5,500 and were not significant during 1999.

6. COMMON STOCK AND STOCK OPTIONS

During July 1999, the Company completed an initial public offering in which the Company sold 1,000,000 shares of common stock for net proceeds to the Company of approximately $6,300,000, after deducting the underwriters' discount and other costs of the offering. The Company granted 100,000 fully exercisable warrants with an exercise price of $12 per share to the underwriter of the initial public offering.

During February 2000, the Company completed a private placement of 400,000 shares of common stock for net proceeds to the Company of approximately $5,258,000, after deducting costs of the offering. The Company received approximately $90,000 of insider proceeds from certain selling shareholders participating in the private placement. The Company granted 25,000 fully exercisable warrants with an exercise price of $21 per share to the underwriter of this private placement.

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.

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

The Company recorded $880,000 in non-cash compensation in connection with the sale of stock that occurred in January 1999. In addition, the Company has recorded deferred stock compensation totaling $228,000 in connection with stock options that were granted in January 1999, representing the difference between the exercise price and the fair value of common stock on the date of grant. Amortization of stock compensation expense related to these options will be recognized on a straight-line basis in the amount of approximately $19,000 per quarter over the three-year vesting period ending January 2002 for the related options. Stock compensation expense of $956,000 and $76,000 has been recorded during the years ended December 31, 1999 and 2000, respectively.

A summary of changes in common stock options during 1999 and 2000 is as follows:

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price
Options outstanding at January 1, 1999	272,334	$0.05–$ 0.60	$ 0.40
Options granted	272,000	$0.05–$ 8.12	$ 4.25
Options exercised	(3,333)	$ 0.20	$ 0.20
Options canceled	(42,667)	$0.20–$ 8.12	$ 3.74
Options outstanding at December 31, 1999	498,334	$0.05–$ 8.12	$ 2.22
Options granted	1,553,214	$0.02–$26.00	$10.17
Options exercised	(62,736)	$0.05–$ 8.13	$ 0.91
Options canceled	(211,383)	$0.05–$16.94	$11.03
Options outstanding at December 31, 2000	1,777,429	$0.02–$26.00	$ 8.16
Options vested, December 31, 1999	197,667	$0.05–$ 8.12	$ 1.95
Options vested, December 31, 2000	602,715	$0.02–$14.69	$ 3.94

The following is additional information related to stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Options	Weighted-Average Exercise Price
$ 0.02–$ 0.50	345,074	$ 0.37	7.94	266,866	$ 0.35
$ 3.36–$ 4.00	430,229	$ 3.40	9.29	199,182	$ 3.39
$ 7.50–$12.97	565,574	$10.84	9.44	75,000	$ 9.33
$13.25–$26.00	436,552	$15.55	9.20	61,667	$14.69
$ 0.02–$26.00	1,777,429	$ 8.16	9.06	602,715	$ 3.94

Pro forma information regarding net income is required by SFAS 123, and has been determined as if the Company had accounted for its employee stock options granted under the fair value method prescribed by SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions:

	Year Ended December 31,	
	1999	2000
Risk-free interest rate	6.00%	6.00%
Dividend yield	0.00%	0.00%
Weighted-average expected life of options	5 years	5 years
Expected volatility	0.622	0.870

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	Year Ended December 31,	
	1999	2000
Pro forma compensation expense	$ 63,748	$ 1,098,153
Pro forma net loss	$(1,468,711)	$(14,725,503)
Pro forma net loss per share—basic and diluted	$ (0.49)	$ (3.20)

At December 31, 1999 and 2000, the weighted-average remaining contractual life of outstanding options was 8.92 and 9.06 years, respectively. The weighted-average grant-date fair value of options granted during 1999 and 2000 at market prices was approximately $1.60 and $9.13, respectively, and at below market prices was approximately $5.40 during 1999.

At December 31, 1999 and 2000, 2,150,000 and 2,051,197 shares of common stock were reserved for future issuance (at December 31, 2000 1,922,447 shares were reserved for options and 128,750 shares were reserved for warrants) and 1,651,666 and 145,018 options were available for future grants, respectively.

7. LINE OF CREDIT AND LONG-TERM DEBT

The Company has a line of credit facility providing up to $6,000,000, subject to certain borrowing base calculations as defined. Borrowings under this agreement, which expires June 29, 2001, bear interest at the bank's prime rate plus 0.85% (10.35% at December 31, 2000). The Company is required to maintain certain financial covenants under this agreement. The line of credit is collateralized by substantially all the assets of the Company. Commencing on December 31, 2000, the Company must pay a fee equal to .07% of the unused portion of the committed line of credit.

The Company amended the line of credit facility in December 2000 to provide for a $750,000 maximum available equipment line of credit, subject to financial covenants and borrowing base calculations as defined. Draws on the equipment line of credit bear interest at prime rate plus 1.5%, and advances are payable in 36 equal monthly installments of principal plus accrued interest. No amounts had been borrowed under the equipment line of credit as of December 31, 2000.

On July 1, 1999, the Company had entered into an agreement with a bank to borrow up to $1,000,000 against qualified accounts receivables with full recourse. Under the contract, the bank would purchase the accounts receivable under the following terms: 80% of the balance is remitted at the sale date, the rest is remitted upon receipt of the balance due from the customer less finance and administrative fees charged by the bank. The agreement had a one-year term and borrowings under the agreement bore interest at the bank's prime rate. In connection with this agreement, the Company issued warrants to the bank to purchase 3,750 shares at the initial public offering price of $8 per share. As the effect of the warrants is not material to the financial statements, the Company has not discounted the line of credit to separately account for the warrants. This agreement expired in June 2000.

Notes payable to related party consists of: a $162,000 non-interest bearing note payable to the shareholders of Core Objective, Inc. ("Core Objective") representing the note payable portion of the purchase consideration in the acquisition of Core Objective and is payable in May 2001; and $63,000 of notes payable to certain shareholders of Core Objective, Inc. assumed in the purchase of Core Objective, which were paid in February 2001.

Notes payable consists of term debt with a bank for the purchase of equipment, assumed in the purchase of Core Objective. This note bears interest at the bank's prime rate plus 1.5%. The note is payable in monthly principal installments of approximately $280 plus interest. The future annual principal payments are as follows: $3,338 in 2001, $3,338 in 2002, $3,338 in 2003, and $556 in 2004.

8. INCOME TAXES

As of December 31, 2000, the Company had tax net operating loss carry forwards of approximately $571,000 that will begin to expire in 2019 if not utilized.

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

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

	Year Ended December 31,	
	1999	2000
Current:		
Federal	$(17,661)	$ —
Foreign	—	175,000
State	(1,558)	—
Total current	(19,219)	175,000
Deferred:		
Federal	(1,583)	—
Foreign	—	—
State	(110)	—
Total deferred	(1,693)	—
	$(20,912)	$175,000

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, 1999 and 2000 are as follows:

	December 31,	
	1999	2000
Deferred tax liabilities:		
Deferred income	$ —	$(265,845)
Depreciable assets	(9,985)	—
Total deferred tax liabilities	(9,985)	(265,845)
Deferred tax assets:		
Depreciable assets	—	3,595
Tax carryforwards	101,265	211,125
Bad debt	25,181	215,475
Stock compensation	28,121	56,242
Accrued liabilities and other	17,364	49,404
Total deferred tax assets	171,931	535,841
Valuation allowance for deferred tax assets	(161,946)	(269,996)
Net deferred tax assets	9,985	265,845
Net deferred taxes	$ —	$ —

The Company has established a valuation allowance equal to the net deferred tax assets due to uncertainties regarding the realization of deferred tax assets based on the Company's lack of earnings history. The valuation allowance increased by approximately $162,000 and $108,000 during 1999 and 2000, respectively. As of December 31, 2000, approximately $175,000 of the valuation allowance relates to tax benefits for stock option deductions included in the net operating loss carryforward, which when realized, will be allocated directly to contributed capital to the extent the benefits exceed amounts attributable to deferred compensation expense.

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

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

	Year Ended December 31,	
	1999	2000
Tax at statutory rate of 34%	$(472,897)	$(4,573,803)
State taxes, net of federal benefit	(14,798)	(21,676)
Goodwill	—	4,400,134
Effect of foreign operations	—	63,659
Stock-based compensation	299,200	—
Permanent items	5,638	39,352
Change in deferred items	161,945	287,481
Other	—	(20,147)
	$ (20,912)	$ 175,000

9. COMMITMENTS AND CONTINGENCIES

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

	Capital Leases	Operating Leases
2001	$115,214	$ 852,780
2002	44,347	465,359
2003	5,219	182,293
2004	—	10,473
Total minimum lease payments	$164,780	$1,510,905
Less amount representing interest	(10,671)	
Present value of minimum lease payments	154,109	
Less current portion	81,415	
Long-term capital lease obligation	$ 72,694	

Rent expense for the years ended December 31, 1999 and 2000 was $88,666 and $798,000, respectively.

In addition, the Company has entered into a sublease with a related party for office rent. The lease agreement with the related party was on a month-to-month basis during 1999 and through March 2000, and in November 2000 a new agreement was entered into for a three-year period. During the years ended December 31, 1999 and 2000, the Company recorded combined rent expense of $88,666 and $24,000, respectively, under these agreements.

10. BUSINESS COMBINATIONS

On January 3, 2000, the Company acquired LoreData, Inc. (“LoreData”). The Company acquired LoreData for an aggregate purchase price of approximately $2.4 million, subject to certain post-closing adjustments. The aggregate purchase price of $2.4 million consisted of: (1) $385,000 in cash that was paid at closing, (2) 30,005 shares of our common stock, also paid at closing, and (3) 131,709 shares of common stock that were held in escrow until January 2001. The acquisition was accounted for as a purchase business combination. The excess of purchase price over fair value of the net assets was recorded as goodwill ($2.3 million), and is being amortized using the straight-line method over the estimated useful life of three years. As of December 31, 2000, accumulated amortization of goodwill related to the LoreData acquisition was approximately $792,000.

On May 1, 2000, the Company acquired all the outstanding shares and assumed all outstanding options of Compete, Inc. (“Compete”). Compete provided specialized consulting services for IBM’s WebSphere and Visual Age product lines. The aggregate purchase price of Compete consisted of: (1) $3,425,000 in cash, (2) $2,527,500 in non-interest bearing promissory notes to be repaid within six months following the closing, (3) 2,003,866 shares of common stock, of which 1,001,933 shares are subject to adjustment or forfeiture and which are being held in escrow, and (4) the assumption of Compete’s outstanding employee options. The total cost of the acquisition, including the assumption of outstanding options and transaction costs, is as follows (in thousands):

Cash	$ 3,425
Note (less imputed interest of $107.5)	2,420
Common stock	40,077
Assumption of existing stock option plan	8,278
Transaction broker fees	694
Transaction costs	325
Total purchase price	$55,219

The acquisition was accounted for as a purchase business combination. Accordingly, the results of operations of Compete have been included with those of the Company for periods subsequent to the date of acquisition. The excess of purchase price over fair value of the net assets was recorded as goodwill ($54.4 million), and is being amortized using the straight-line method over the estimated useful life of three years. As of December 31, 2000, accumulated amortization of goodwill related to the Compete acquisition was approximately $12,054,000.

The unaudited pro forma combined results of operations of Perficient, LoreData, and Compete for the years ended December 31, 1999 and 2000 after giving effect to certain pro forma adjustments as if the transaction had occurred at the beginning of each period are as follows:

	Year Ended December 31,	
	1999	2000
Revenues	$ 9,710,818	$ 23,110,578
Operating loss	$(20,008,666)	$(18,996,278)
Net loss	$(20,045,520)	$(19,325,316)
Basic and diluted pro forma net loss per share	$ (4.97)	$ (3.91)

The unaudited pro forma results are not necessarily indicative of the actual results of operations that would have occurred had the acquisitions of Compete and LoreData occurred on January 1, 1999 or of future results.

On November 17, 2000, the Company acquired Core Objective, Inc. ("Core Objective"), a Canadian corporation. Core Objective was a consulting firm specializing in object oriented design and development of software for Fortune 2000 companies. The Company acquired Core Objective for an aggregate purchase price of approximately $1,940,000, consisting of cash, a note payable due six months from the purchase date, 107,526 shares of common stock (of which 53,763 are being held in escrow for a one-year period) and the assumption of outstanding options. The acquisition was accounted for as a purchase business combination. Accordingly, the results of operations of Core Objective have been included with those of the Company for periods subsequent to the date of acquisition. The excess of purchase price over fair value of the net assets was recorded as goodwill ($1,820,000), and is being amortized using the straight-line method over the estimated useful life of three years. As of December 31, 2000, accumulated amortization of goodwill related to the Compete acquisition was approximately $96,000.

11. SEGMENTS OF BUSINESS AND GEOGRAPHIC AREA INFORMATION

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

	Year Ended December 31,	
	1999	2000
Revenue:		
United States	$ 2,647,878	$ 18,225,081
Canada	—	139,889
United Kingdom	—	1,598,789
Total revenue	$ 2,647,878	$ 19,963,759
Net income (loss):		
United States	$(1,404,963)	$(13,655,040)
Canada	—	30,808
United Kingdom	—	(3,118)
Total net income (loss)	$(1,404,963)	$(13,627,350)
Identifiable assets:		
United States	$ 6,616,417	$ 53,225,351
Canada	—	339,760
United Kingdom	—	1,049,831
Total identifiable assets	$ 6,616,417	$ 54,614,942

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of Perficient, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Perficient, Inc. and Subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Austin, Texas
January 25, 2001

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

	High	Low
Year Ended December 31, 1999:		
Third Quarter (from July 29, 1999)	$12.00	$ 6.25
Fourth Quarter	17.88	6.50
Year Ended December 31, 2000:		
First Quarter	$27.13	$10.06
Second Quarter	21.00	11.00
Third Quarter	18.13	8.94
Fourth Quarter	19.38	5.00

As of March 23, 2001, there were in excess of 400 beneficial holders of our common stock. On March 23, 2001, the last sale price reported on the Nasdaq SmallCap Market for our common stock was $4.8125 per share.

We have never declared or paid any cash dividends on our common stock or other securities and do not anticipate paying cash dividends in the foreseeable future. Our line of credit currently prohibits the payment of cash dividends.

We received approximately $6.3 million in July 1999 from an initial public offering of 1,000,000 shares of our common stock, net of underwriting discounts, commissions and expenses. The primary purposes of the initial public offering were to obtain additional equity capital, create a public market for our common stock and facilitate future access to public markets. Pending the use of proceeds, we had invested the net proceeds of the offering in investment grade, interest-bearing securities. Prior to the offering, we financed our operations primarily through equity financing and bank borrowings.

On February 7, 2000, we sold 400,000 shares of common stock at $14 per share in a private placement for net proceeds of approximately $5,258,000. We used the proceeds to fund the cash portion of the purchase price of Compete, the promissory note for the acquisition of Compete and for general corporate purposes.

CORPORATE INFORMATION

BOARD OF DIRECTORS

John T. (Jack) McDonald
Chairman and Chief Executive Officer
Perficient, Inc.

Sam J. Fatigato
President, Chief Operating Officer and Director
Perficient, Inc.

Steven G. Papermaster
Director

David S. Lundeen
Director

Phillip J. Rosenbaum
Director

Dr. W. Frank King
Director

CORPORATE HEADQUARTERS

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Building B, Suite 340
Austin, TX 78731
Phone: (512) 531-6000
Fax: (512) 531-6011
Web site: www.perficient.com

SECURITIES INFORMATION

The Company's Common Stock commenced trading in July 1999 on The Nasdaq SmallCap Market℠, under the symbol PRFT and on the Boston Stock Exchange under the symbol PRF.

The Company has never declared or paid any cash dividends on its Common Stock.

INVESTOR INFORMATION

- Shareholder Account Questions

The Transfer Agent for the Company's Common Stock is Continental Stock Transfer & Trust Company. Please contact the Transfer Agent directly concerning changes in address, name or ownership, lost certificates and to consolidate multiple accounts.

Continental Stock Transfer & Trust Company
2 Broadway
New York, New York 10004

- Investor Inquiries

For investor/analyst inquiries and to request or access financial documents such as this annual report, SEC Form 10-K and press releases, please visit the Company's web site, www.perficient.com or contact the Investor Relations Department:

Investor Relations Department
7600 North Capital of Texas Highway
Building B, Suite 340
Austin, TX 78731
Phone: (512) 531-6000
Fax: (512) 531-6011
e-mail: investorrelations@perficient.com

ANNUAL MEETING

The Annual Meeting of Shareholders of Perficient, Inc., will be held on Thursday, June 14, 2001 at 9:00 a.m. at the Company's office, 7600 North Capital of Texas Highway, Building B, Suite 340, Austin, Texas 78731.

GENERAL INFORMATION

Members of the media and others seeking general information about Perficient, Inc. should contact:

John Crowe
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Four Gateway Center
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Newark, NJ 07101

INDEPENDENT AUDITORS

Ernst & Young LLP
700 Lavaca Street, Suite 1400
Austin, TX 78701

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements with respect to various aspects of the Company's business, including, but not limited to, the benefits that are provided to clients, the Company's enabling capabilities and expertise, the value to the Company of the agreement with IBM and the Company's achievements for 2001. These statements and others are subject to risk and uncertainties, including, but not limited to, the impact of competitive services, services demand and the ability of the Company's limited number of partners, including IBM, to terminate their agreements or reduce the use of the Company's services, fluctuations in utilization rates, downturns in the Internet software industry, market acceptance risks, fluctuations in operating results and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission. The Company's agreement with IBM is terminable on four-months notice and allows IBM to reduce minimum services amounts. The services agreement may provide substantially less revenue to the Company than $73.5 million. For such statements, the Company claims the protection of the safe harbor for forward-looking statements under the Private Litigation Securities Act of 1995. Certain pro forma financial information presented in this annual report gives effect to the completed acquisitions of Compete, Inc. and LoreData, Inc. and assumes those transactions had occurred on January 1, 1999. The pro forma information is subject to various assumptions and adjustments set forth more particularly in the Annual Report on Form 10-K and other filings with the SEC. There can be no assurance that the reported pro forma results of Perficient, Compete and LoreData are indicative of the results of operations that would have been obtained had such acquisitions been completed as of the assumed date.

Designed by Curran & Connors, Inc. / www.curran-connors.com

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