

PERFICIENT INC  
Form 10KSB  
March 27, 2003

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-KSB**

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 2002  
Commission File Number: 1-15169

**PERFICIENT, INC.**

(Name of Small Business Issuer in its Charter)

**DELAWARE**

(State or Other Jurisdiction of  
Incorporation or Organization)

**74-2853258**

(IRS Employer Identification No.)

**7600B North Capital of Texas Highway, Suite 340  
Austin, Texas 78731**

(Address of principal executive offices)

**(512) 531-6000**

(Issuer's telephone number, including area code)

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

<b>Title of Class</b>	<b>Name of each exchange on which registered:</b>
Common Stock, \$.001 par value	Boston Stock Exchange

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

**NONE**

(Title of Class)

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

- (1) Yes  No
- (2) Yes  No

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

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State Registrant's revenues for its most recent fiscal year: \$22,450,284

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

**\$6,798,119 AS OF MARCH 24, 2003**

State the number of shares of common stock outstanding as of March 24, 2003: 10,537,226

Transitional Small Business Disclosure Format: Yes  No

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**PERFICIENT, INC.  
FORM 10-KSB ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2002**

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**PART I**

**ITEM 1 DESCRIPTION OF BUSINESS**

*The statements contained in this annual report on Form 10-KSB that are not purely historical statements are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, including statements regarding our expectations, beliefs, hopes, intentions or strategies regarding the future. These forward-looking statements include, among other things, references to the market potential for Internet implementation, our competitive advantage over systems integrators and technology professionals, potential demand for our services, and the*

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*benefits and advantages of our business model and involve substantial risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements. Please see "Risk Factors," "Special Cautionary Note Regarding Forward-Looking Statements" and the factors and risks discussed in the reports we file from time to time with the Securities and Exchange Commission.*

### Overview

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

In addition to our direct-to-end customer solutions business, our Advanced Technology Services (ATS) group exclusively serves IBM Corporation and its customers throughout the United States. Our ATS group employs more than 50 employees with experience in a variety of IBM software products, including WebSphere middleware and application servers and WebSphere portal server. We have a services agreement with IBM under which our ATS group provides deployment, integration and training services to IBM's WebSphere customers. Under the agreement with IBM, we are paid for services rendered, subject to a guaranteed minimum utilization by IBM of a specified number of hours per consultant per year. Our current agreement with IBM expires in August 2003. We are currently in negotiations with IBM regarding our relationship and we expect that IBM will continue to be a significant customer for the foreseeable future.

We were incorporated in Texas in September 1997. In May 1999 we reincorporated in Delaware. We employed 141 full-time professionals in 5 offices in the United States and Canada as of March 1, 2003.

### Our eBusiness Solutions Services

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

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

analyze end-user customer business goals and requirements;

define the scope of the implementation project;

design a project plan; and

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custom develop solutions as well as install, configure, and integrate our partners' Internet software products.

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

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

eBusiness infrastructure;

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eCommerce platforms;

Online customer management (eCRM);

Supply chain Web-enablement (SCWE);

Enterprise portals; and

Business Intelligence.

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

to reach new markets and increase revenues;

to strengthen customer relationships;

to reduce operating costs and increase productivity; and

to empower their workers.

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

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

*eBusiness Infrastructure.* Middleware and Enterprise Application Integration (EAI) software are two key components to developing enterprise-class, eCommerce platforms for large and mid-size companies. Perficient designs and implements complex website-to-legacy system integrations that significantly reduces round-trip transaction times for these enterprise-class websites. This umbrella of technologies is commonly called Web Services. To maximize our value to customers, we have strategic relationships with Web Services firms such as IBM and Microsoft.

*eCommerce Platforms.* We develop eCommerce applications and further enhance existing sites to introduce new technology. We design systems that manage the "back-end" order fulfillment process to leading ERP systems such as SAP and JD Edwards for business-to-consumer and business-to-business Web sites. We provide commerce site enhancements, including advanced catalog management and search and cross-sell and up-sell capabilities. We offer clients packaged or custom electronic bill presentation and implementation solutions based on an individual company's needs.

*eCRM.* Customer Relationship Management provides businesses with information on the wants and needs of its customers. We integrate data from disparate information sources to provide continuous, interactive and multi-platform customer interaction and value exchange. We can deliver CRM components including: personalization, point of sale, telesales, Web-based selling, data mining, online advertising, call/contact center information and systems integration, field service dispatch, lead tracking, geocoding, and multiple front and back-office applications.

*Supply Chain Web Enablement.* In the manufacturing and service industries, the implementation of a portal, business hub, Net exchange or extranet system enables established companies to build new business models, alliances, partnerships and other business relationships. Each company and industry has unique design and build requirements to support purchasing, distribution and sales. We help companies develop strategies and build the solutions they need to facilitate the exchange of information and transactions at critical points along the supply-chain.

*Enterprise Portals.* Communication is the basis of success for any organization. We design, build and deploy "self-service" and collaborative solutions for business-to-employee, business-to-consumer and business-to-business implementations and enable workflow efficiencies by exchanging data and information in a cost-efficient, effective manner. Many organizations implement business-to-employee portals to improve employee communication. We help clients to extend these benefits externally in business-to-consumer and business-to-business portals that provide secure line of business application integration and personalized buying communities.

*Business Intelligence.* Business intelligence is the technology that allows organizations to access, analyze, and share information in order to drive more informed business decisions. The core benefit of business intelligence is that it helps turn information into knowledge and into profit. This benefit can be further refined as: 1) reduced cost by providing organizations with a clear understanding of their business processes; 2) increased revenues by differentiating their offerings from the competition by providing information-based services to their customers; and 3) improved customer satisfaction by enabling self-service access to information.

## **Our Strategy**

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

target for expansion vital but underserved markets in the Midwestern and Southwestern United States;

use selective acquisitions to supplement organic growth and achieve critical mass;

continue to grow our IBM relationship and expand it to include more solutions services;

provide our customers end-to-end solutions that generate a demonstrable positive return on investment;

continue to invest in the professional development of our consulting staff and provide them with entrepreneurial opportunities within Perficient; and

retain and strengthen a culture built on teamwork, a passion for technology and client service, and a focus on cost control and the bottom line.

## **Sales and Marketing**

*eBusiness Solutions Services.* Our business development approach is market-focused with specific and tailored strategies for the industry market segments we serve. We target companies with annual

revenues between \$250 million and \$5 billion, specifically focused in financial services (insurance, banking and brokerage), healthcare (pharmacy benefit managers and pharmaceutical manufacturers) and commodity (agribusiness and energy) markets. We also pursue opportunities in other industries where we can leverage our expertise. We utilize a direct sales force that consists of seven consultative sales

professionals.

*IBM Partnership.* Our ATS service engagements are generated through or together with IBM. As a result, our principal sales and marketing activity consists of marketing our services in concert with IBM's sales and services organizations. We have a general manager dedicated to coordinating projects and stimulating additional demand from IBM.

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

### **Technology Professionals**

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

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

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

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

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

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

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

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

we maintain an informal team culture;

we provide our technology professionals with high-quality infrastructure support services;

we provide competitive incentives including equity ownership;

we reinvest in continuing training and education; and

we treat each other with respect.

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

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

### **Employees**

As of March 1, 2003, we employed 141 full-time employees. Of our total employees, 114 were technology professionals and 27 were involved in sales, general administration and marketing. Our employees are not represented by any collective bargaining unit, and we have never experienced a work stoppage.

### **Competition**

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

in-house information technology and professional services and support departments of software companies;

systems integrators, such as Sapient Corporation, SBI and Company, and Braun Consulting;

large consulting firms, such as Accenture, Bearing Point, Braxton (formerly Deloitte Consulting) and Cap Gemini Ernst & Young;

information technology staffing firms, such as Keane, Inc. and Aquent (formerly Renaissance Worldwide); and

other eBusiness solutions service providers engaged by IBM as subcontractors.

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

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

### **Acquisitions**

In 2000, Perficient acquired three companies Loredata Inc., Compete, Inc., and Core Objective, Inc. All three companies were acquired to deepen Perficient's technical expertise, add key management personnel, and add customer and strategic relationships. Compete was a fifty person operation headquartered in Chicago which formed the basis for our relationship with IBM. Loredata and Core Objective constituted smaller acquisitions that were integrated into our existing business. In 2002, Perficient acquired Primary Webworks, Inc. d/b/a Vertecon, Inc. and Javelin Solutions, Inc. Vertecon was located in St. Louis, and Javelin was located in Minneapolis. These two acquisitions furthered our plan to become a leading eBusiness solutions services provider in the Midwestern United States by expanding our geographic presence, adding key management personnel and customer relationships, and expanding our technical expertise.

## RISK FACTORS

### *Risks Specific to Our Business*

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

We have incurred operating losses in most of the quarters during which we have been in business, and as a result, we had a retained deficit of \$61,285,000 as of December 31, 2002. As a result of our acquisitions, we recorded a substantial amount of goodwill. During the quarter ended September 30, 2001, we recorded an approximate \$27 million impairment charge to write down the carrying value of our goodwill, as a result of factors including, but not limited to, the general decline in the valuation of service companies and the decline in demand for information technology services. If we achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future. We cannot assure you of any operating results. In future quarters, our operating results may not meet public market analysts' and investors' expectations. If that happens, the price of our common stock will likely fall.

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

We have arrangements with a limited number of customers. IBM accounted for 39% and 35% of our revenue during the years ended December 31, 2001 and 2002, respectively. Any termination of our relationship with, or significant reduction or modification of the services we perform for, IBM would materially reduce our revenue and net income.

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

Amounts owed to us by IBM represented 35% of our accounts receivable, or \$1,599,000, as of December 31, 2002. Failure of IBM to pay that amount would have a material adverse effect on our working capital, cash position, business, operating results and financial condition. Failure of IBM to timely pay us could materially impact our cash and working capital balances.

**IBM may terminate its agreement with us or reduce substantially its obligations to use our services which could materially reduce our revenue and net income.**

IBM has the right to reduce by up to one-third the minimum amount of our services contemplated by our agreement over any 60-day period. In addition, IBM may terminate the agreement on four months notice. Any termination or expiration of our agreement with IBM or a reduction of the services performed pursuant to this agreement would have an adverse effect on our business, operating results and financial condition. Our agreement with IBM will expire in August 2003. In the event IBM does not renew its agreement with us or decides to not use our services, our revenue and net income could be materially reduced.

**Our customers may not be obligated to use our services.**

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

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



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A high percentage of our operating expenses, particularly personnel and rent, are fixed in advance of any particular quarter. As a result, if we experience unanticipated changes in the number or nature of our projects or in our employee utilization rates, we could experience large variations in quarterly operating results and losses in any particular quarter. Due to these factors, we believe you should not use our historical quarter-to-quarter operating results to predict our future performance.

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

the loss of a significant customer or project;

the number and types of projects that we undertake;

our ability to attract, train and retain skilled management and technology professionals;

seasonal variations in spending patterns;

our employee utilization rates, including our ability to transition our technology professionals from one project to another;

changes in our pricing policies;

our ability to manage costs; and

costs related to acquisitions of other businesses.

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

demand for Internet software;

end-user customer budget cycles;

changes in end-user customers' desire for our partners' products and our services;

pricing changes in our industry;

government regulation and legal developments regarding the use of the Internet; and

general economic conditions.

We expect that we may experience seasonal fluctuations in revenues. We expect that revenues in the quarter ending December 31 may typically be lower than in other quarters because there are fewer billable days in this quarter as a result of vacations and holidays. This seasonal trend may materially affect our quarter-to-quarter operating results.

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

Almost all of our revenues are from project-based client engagements, which vary in size and scope. As a result, our revenues are difficult to predict because a client that accounts for a significant portion of these revenues in one period may not generate a similar amount of revenues, if any, in subsequent periods. In addition, because many of our project-based client engagements involve sequential stages, each of which may

represent a different contractual commitment, a client may not choose to retain us for subsequent stages of an engagement or for new service projects.

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

Our gross margins are affected by trends in the utilization rate of our professionals, defined as the percentage of our professionals' time billed to customers divided by the total available hours in a

period. Our operating expenses, including employee salaries, rent and administrative expenses are relatively fixed and cannot be reduced on short notice to compensate for unanticipated variations in the number or size of projects in process. If a project ends earlier than scheduled, we may need to redeploy our project personnel. Any resulting non-billable time may adversely affect our gross margins. The absence of long-term contracts and the need for new partners and business create an uncertain revenue stream, which could negatively affect our financial condition.

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

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

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

Our business is labor intensive. Accordingly, our success depends in large part upon our ability to attract, train, retain, motivate, manage and utilize highly skilled technology professionals. Additionally, our technology professionals are at-will employees. Any inability to attract, train and retain highly skilled technology professionals would impair our ability to adequately manage, staff and utilize our existing projects and to bid for or obtain new projects, which in turn would adversely affect our operating results.

**Our success will depend on retaining our senior management team and key technical personnel.**

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

**We face risks associated with finding and integrating acquisitions.**

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

management and employees, increase our expenses and materially and adversely affect our results of operations. Furthermore, we may incur debt or issue equity securities to pay for any future acquisitions. If we issue equity securities, your ownership share of our common stock will be diluted.

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

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

*Risks Relating to Our Industry*

**The Internet services market demand is subject to uncertainty.**

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

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

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

**The demand for Internet software and services has weakened significantly and demand will likely remain weak for some time due to the current economic climate.**

The market for Internet software and services has changed rapidly over the last four years. The market for Internet software and services expanded dramatically during 1999 and most of 2000, but declined significantly in 2001 and 2002. Since the second half of 2000, many companies have experienced financial difficulties or uncertainty, and cancelled or delayed spending on technology initiatives as a result. Our future growth is dependent upon the demand for Internet software and services and our ability to provide strategic Internet services that are accepted by our end-user customers. Demand and market acceptance for Internet services are subject to a high level of uncertainty. If companies continue to cancel or delay their business and technology initiatives or choose to move these initiatives in-house because of the current economic climate, or for other reasons, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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Rapidly changing technology, evolving industry standards and changing partner needs are common in the Internet professional services market. Accordingly, our success will depend, in part, on our ability to:

continue to develop our technology expertise;

enhance our current services;

develop new services that meet changing partner and end-user customer needs;

advertise and market our services; and

influence and respond to emerging industry standards and other technological changes.

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

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

security;

cost and ease of Internet access;

intellectual property ownership;

privacy;

taxation; and

liability issues.

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

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

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

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with ours. In addition, with consolidation in the Internet software and service industry, many software developers that may have become our partners could acquire or develop the capability to perform our services for themselves or merge with our competitors.

Our current competitors include:

in-house information technology and professional services and support departments of software companies;

systems integrators, such as Sapient Corporation, and SBI and Company;

large consulting firms, such as Accenture, Bearing Point, Braxton (formerly Deloitte Consulting) and Cap Gemini Ernst & Young;

information technology staffing firms, such as Keane, Inc., and Aquent (formerly Renaissance Worldwide)and;

other eBusiness solutions service providers engaged by IBM as subcontractors.

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

### *Risks Relating to Ownership of Our Stock*

**If our common stock is delisted from the NASDAQ SmallCap Market, it would make it more difficult to dispose of our common stock and to obtain accurate pricing information for our common stock.**

We received notice from NASDAQ on March 18, 2003, indicating that for 30 consecutive trading days the bid price of our common stock had closed below the minimum \$1.00 per share required for continued listing on the NASDAQ SmallCap Market. NASDAQ has provided an extension through September 15, 2003 for us to achieve compliance with the \$1.00 minimum bid requirement. We may not be able to comply with the listing criteria discussed above within the period provided or we may not be able to comply with the listing requirements of the NASDAQ SmallCap Market in the future. In the event that our common stock is delisted from the NASDAQ SmallCap Market, it will be more difficult to dispose of our common stock and to obtain accurate pricing information for our common stock.

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

Our common stock is traded on the NASDAQ SmallCap Market under the symbol "PRFT." The trading volume of our common stock has been limited, and the stock prices have been volatile. Our common stock price may continue to be highly volatile and may fluctuate as a result of the limited trading volume.

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

Our executive officers, directors and existing 5% and greater stockholders beneficially own or control greater than 50% of the voting power of our common stock. This concentration of ownership of our common stock may make it difficult for other Perficient stockholders to successfully approve or defeat matters that may be submitted for action by our stockholders. It may also have the effect of delaying, deterring or preventing a change in control of our company.

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

Provisions of our certificate of incorporation, by-laws and Delaware law could make it difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. In addition, under our agreement with IBM, we have granted IBM a right of first offer and a right to

terminate its agreement with us with respect to any change of control transaction with a company that has a substantial portion of its business in the web application server product and services market, other than a systems integrator or professional services firm. As a result, a potential acquirer may be discouraged from making an offer to buy us.

**We may need additional capital in the future, which may not be available to us. The raising of any additional capital may dilute your ownership percentage in our stock.**

We believe our existing line of credit and working capital should provide sufficient resources to satisfy our near term capital requirements. Our existing line of credit facility expires in December 2003. If we are unable to renew our line of credit, we may need to obtain an alternate debt financing facility. However, while we do not see an immediate need, in the future we may need to raise additional funds through public or private debt or equity financing in order to:

take advantage of opportunities, including more rapid expansion or acquisitions of, or investments in, businesses or technologies;

develop new services; or

respond to competitive pressures.

Any additional capital raised through the sale of equity will dilute your ownership percentage in our stock. Furthermore, we cannot assure you that any additional financing we may need will be available on terms favorable to us, or at all. In such case, our business results would suffer.

#### **SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS**

Some of the statements contained in or considered a part of this annual report on Form 10-KSB that are not purely historical statements discuss future expectations, contain projections of results of operations or financial condition or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The "forward-looking" information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed under the heading "Risks Factors" in this Report on Form 10-KSB. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. We are under no duty to update any of the forward-looking statements after the date of this Report to conform such statements to actual results.

#### **ITEM 2 DESCRIPTION OF PROPERTY**

We lease approximately 5,900 square feet of office space in Austin, Texas from HUB Properties Trust. The initial term of the lease is three years from April 2000 with the right to extend the lease for two additional periods of three years each. The current monthly rent under the lease is approximately \$15,000, including our portion of taxes and operating costs. We lease approximately 25,952 square feet of office space in the St. Louis, Missouri areas from Creve Coeur Development LLC that extends through October 2005. The monthly rent is approximately \$50,000 for 2002, \$52,000 for 2003, \$54,000 for 2004 and \$55,000 for 2005. We lease approximately 18,889 square feet of office space in Minneapolis, Minnesota under an agreement with Butler Properties, LLC that extends through May 2007. Annual fixed rent is approximately \$23,000 per month for 2002, \$24,000 for 2003, \$24,000 for 2004, \$25,000 for 2005, \$26,000 for 2006 and \$27,000 for 2007. We are also obligated to pay 5.14% of our landlord's taxes and operating costs associated with the building as additional rent, resulting in a total monthly rental payment of approximately \$40,000. We also lease office space under agreements that either expired in 2002 or are set to expire in 2003 in Lisle, Illinois, London, Ontario, London, England and New London, Connecticut.

#### **ITEM 3 LEGAL PROCEEDINGS**

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

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

We did not submit any matters to a vote of security holders during the fourth quarter of fiscal year ending December 31, 2002.

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### PART II

#### ITEM 5 MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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

	<u>High</u>	<u>Low</u>
<b><u>Year Ended December 31, 2001:</u></b>		
First Quarter	\$ 8.00	\$ 2.44
Second Quarter	4.82	2.50
Third Quarter	3.55	1.20
Fourth Quarter	2.49	0.84
<b><u>Year Ended December 31, 2002:</u></b>		
First Quarter	\$ 2.25	\$ 0.95
Second Quarter	1.65	0.90
Third Quarter	1.61	0.43
Fourth Quarter	2.48	0.33

As of March 19, 2003, there were in excess of 400 beneficial holders of our common stock. On March 24, 2003, the last sale price reported on the Nasdaq SmallCap Market for our common stock was \$0.75 per share.

On March 18, 2003, we received notice that we were not in compliance with the minimum \$1 per share requirement for continued inclusion on the Nasdaq SmallCap Market. We have until September 15, 2003 to regain compliance. If we are unable to regain compliance by September 15, 2003 or within any extended grace period, our stock may be delisted from the Nasdaq SmallCap Market.

We have never declared or paid any cash dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. Our Series A Preferred Stock accrues dividends at an annual rate of the prime rate plus 1.5% and our Series B Preferred stock accrues dividends at an annual rate of 8%. Our line of credit currently prohibits the payment of cash dividends without the prior written consent of Silicon Valley Bank.

In January 2000, we issued 161,714 shares of common stock in connection with the acquisition of Lore Data, Inc. This issuance was conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

In February 2000, we sold 400,000 shares of common stock at \$14 per share to 6 purchasers for net proceeds of approximately \$5,258,000. This sale was conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

In May 2000, we issued 2,003,866 shares of our common stock in connection with the acquisition of Compete, Inc. This issuance was conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

In November 2000, we issued 107,526 shares of our common stock in connection with the acquisition of Core Objective, Inc. This issuance was conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a

public offering.

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We entered into a Convertible Preferred Stock Purchase Agreement, dated as of December 21, 2001, with six investors under which we sold 1,984,000 shares of our Series A Convertible Preferred Stock, par value \$0.001 per share, to such investors for a purchase price of \$1.00 per share. Each share of Series A Preferred Stock was initially convertible into one share of our common stock, par value \$0.001 per share, at the election of the holder. The current conversion ratio for the Series A Preferred Stock is approximately 1.00968. We also issued Warrants to purchase 992,000 shares of our common stock in connection with this sale of Series A Preferred Stock. For every two shares of Series A Preferred Stock purchased by an investor, such investor received a Warrant to purchase one share of our common stock at an initial exercise price of \$2.00 per share of common stock. This sale was conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

On April 26, 2002, we issued 1,994,586 shares of our common stock in connection with the acquisition of Primary Webworks, Inc. d/b/a Vertecon, Inc and also issued 2,216,255 shares of our common stock in connection with the acquisition of Javelin Solutions, Inc. These issuances were conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

We entered into a Convertible Preferred Stock Purchase Agreement, dated as of June 26, 2002 with 2M Technology Ventures, L.P. under which we sold 1,111,000 shares of Series B Convertible Preferred Stock, par value \$0.001 per share, to 2M for a purchase price of \$0.90 per share. Each share of Series B Preferred Stock was initially convertible into one share of our common stock, par value \$0.001 per share, at the election of the holder. We also issued Warrants to purchase 555,500 shares of our common stock in connection with this sale of Series B Preferred Stock. For every two shares of Series B Preferred Stock purchased, 2M received a Warrant to purchase one share of our common stock at an initial exercise price of \$2.00 per share of common stock. 2M has the option to purchase up to an additional 1,666,500 shares of Series B Preferred Stock for a price of approximately \$0.90 per share exercisable on or before June 26, 2003. 2M will receive a Warrant to purchase one share of our common stock for every two shares of Series B Preferred Stock it purchases pursuant to the option. This sale was conducted in reliance upon the exemption from registration under Section 4(2) of the Securities Act of 1933, as a transaction not involving a public offering.

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes thereto and the other financial information included elsewhere in this annual report on Form 10-KSB. In addition to historical information, this management's discussion and analysis of financial condition and results of operations and other parts of this annual report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking information as a result of certain factors, including but not limited to, those set forth under Risk Factors and elsewhere in this annual report.*

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

In October 2000 we entered into a services agreement with IBM under which we provide deployment, integration and training services to IBM's WebSphere customers. The agreement provides for us to render services over a three-year period, which began in October 2000. Through December 31, 2002, we have recognized approximately \$15 million of revenue in connection with this agreement. Revenue from IBM was approximately 35% of total revenue for the year ended December 31, 2002. Accordingly, any deterioration in our relationship with IBM could have a material adverse effect on our consulting revenue. Our agreement with IBM provides generally that we receive four months notice of any termination. IBM may also reduce by up to one-third the minimum amount of our services contemplated by our agreement over a 60-day period. Our current agreement with IBM expires in August 2003. We are currently in discussions with IBM regarding our relationship and we expect that IBM will continue to be a significant customer for the foreseeable future. Our agreements generally do not obligate our customers to use our services for any minimum amount, or at all, and our customers may use the services of our competitors.

We derive most of our revenue from professional services that are provided primarily on a time and materials basis, with the remaining small percentage of revenue provided from fixed fee engagements and software sales. For time and material contracts, revenue is recognized and billed by multiplying the number of hours expended by our professionals in the performance of the contract by the established billing rates. For fixed fee projects, revenue is recognized on a percentage of completion basis. On many projects we are also reimbursed for direct expenses



allocated to a project such as airfare, lodging and meals. These direct reimbursements are presented as a component of gross revenue. We have from time to time and expect to continue in the future to resell prepackaged software to our customers.

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

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

During 2002, we implemented certain workforce reductions and office closures resulting in charges of approximately \$42,000 during the first quarter of 2002, \$345,000 during the second quarter of 2002,

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and \$192,000 during the fourth quarter of 2002, consisting of severance pay and related benefits for former employees in addition to the costs associated with the closure of the London office. During the second quarter of 2002, we recognized \$118,000 of restructuring expense related to management's plan to close our London office. This amount consisted of \$84,000 for severance and benefits, \$4,000 for lease commitments, and \$30,000 for expected losses on the disposal of fixed assets, attorney and accounting fees, and other costs. As part of these restructurings, we reduced our workforce by a total of 30 employees, of which 17 were technology professionals and 13 were involved in selling, general administration and marketing. As of December 31, 2002, approximately \$228,000 of restructuring costs is included in other current liabilities. The accrued restructuring costs are expected to be paid as follows: \$165,000 in the first quarter of 2003; \$50,000 in the second quarter of 2003; and the remaining \$13,000 in the third quarter of 2003.

During 2001, we implemented certain cost reduction initiatives and workforce reductions resulting in charges of approximately \$289,000 during the first quarter of 2001, \$143,000 during the second quarter of 2001 and \$211,000 during the third quarter of 2001, consisting mostly of severance costs to former employees and the remaining commitment under an office space lease we no longer utilized as a result of the workforce reductions. The workforce reductions during the third quarter of 2001 also included actions taken in connection with the integration plan and elimination of duplicate roles in anticipation of the mergers with Javelin and Vertecon. As part of these restructurings, we reduced our workforce by a total of 84 employees, of which 66 were technology professionals and 18 were involved in selling, general administration and marketing. As of December 31, 2001, approximately \$23,000 of restructuring costs is included in other current liabilities. We also expensed, during the first quarter of 2001, \$123,000 of costs associated with a proposed offering of shares of our common stock that was contemplated during 2000 but was postponed. All costs associated with the 2001 restructuring initiatives have been paid.

### ***Results of Operations***

#### ***Year Ended December 31, 2001 Compared to Year Ended December 31, 2002***

***Revenue.*** Revenue, including rebilled out-of-pocket expenses, decreased from \$23,538,000 for the year ended December 31, 2001 to \$22,450,000 for the year ended December 31, 2002. The decrease in revenue is the result of a decrease in rebilled out-of-pocket expenses. Revenue net of project expenses remained consistent at approximately \$20,400,000 during 2001 and 2002 as a result of similar average headcount for 2001 and 2002. The results of Vertecon and Javelin are included with our results for the period from April 27, 2002 to December 31, 2002. The number of billable employees increased from 89 at December 31, 2001 to 118 at December 31, 2002. During the year ended December 31, 2002, 35% of our revenue was derived from IBM. Software resale revenue was \$348,000 during 2001 compared to \$395,000 during 2002.

***Cost of Revenue.*** Cost of revenue, consisting of salaries and benefits associated with our technology professionals, and of project related expenses, totaled \$11,879,000 for the year ended December 31, 2001 compared to \$11,553,000 for the year ended December 31, 2002. Cost of revenue remained consistent between the periods as a result of similar average headcount for 2001 and 2002.

***Gross Margin.*** Gross margin increased from \$8,537,000 for the year ended December 31, 2001 to \$8,911,000 for the year ended December 31, 2002. Gross margin as a percentage of revenue was 36% for the year ended December 31, 2001 and 40% for the year ended December 31, 2002. The increase in gross margin as a percentage of revenue is due to higher utilization rates during the year ended December 31, 2002 compared to the year ended December 31, 2001, offset by a decline in average rates. In addition, the increase in gross

margin is due to the decrease of out-of-pocket reimbursable expenses, which have zero margin, relative to total revenue during 2002 compared to 2001.

*Selling, General and Administrative.* Selling, general and administrative expenses consist of salaries and benefits for sales, executive and administrative employees, training, marketing activities, investor relations, recruiting, non-reimbursable travel costs and expenses and miscellaneous expenses. Selling, general and administrative expenses remained consistent at \$8,337,000 for the year ended December 31, 2001 versus \$8,327,000 for the year ended December 31, 2002. Selling, general and administrative expenses as a percentage of revenue net of project expenses were 41% for both the year ended December 31, 2001 and the year ended December 31, 2002.

*Stock Compensation.* Stock compensation expense consists of non-cash compensation arising from certain option grants to employees with exercise prices below fair market value at the date of grant, option grants made to outside consultants, compensation expense recognized as a result of certain modifications made to outstanding options, and the amortization of deferred stock compensation recorded in connection with the assumption of stock options in business combinations. Stock compensation expense decreased from \$664,000 during the year ended December 31, 2001 to \$241,000 during the year ended December 31, 2002 as a result of fewer stock option grants to employees with exercise prices below fair market value at the date of grant.

*Depreciation.* Depreciation expense increased from \$495,000 during 2001 to \$688,000 during 2002. The increase is related to additional depreciation expense associated with fixed assets recorded in connection with the acquisitions of Vertecon and Javelin.

*Restructuring.* Restructuring, severance and other expense consists of severance payments and related benefits, the remaining lease commitment for unused office space, costs associated with the shutdown of our London office, and postponed offering costs. The costs to close down our London office totaled approximately \$118,000 and included severance and related benefits, the remaining office lease commitment, loss on disposal of fixed assets, and associated legal and accounting fees. Restructuring expense decreased from \$766,000 during the year ended December 31, 2001 to \$579,000 during the year ended December 31, 2002. The decrease in restructuring expense is due in part to the 2001 restructuring expense including \$123,000 of costs related to a proposed offering of our common stock that was postponed. There were no similar postponed offering costs during 2002. The remaining change is the result of the period specific nature of the charges and the difference in the number of people and type of positions terminated in the related period. During 2001 and 2002, we reduced our workforce by a total of 84 employees and 30 employees, respectively.

*Impairment Charge.* During the year ended December 31, 2001, we recorded an impairment charge of \$26,798,000 to write down the carrying value of our goodwill for the amount by which the carrying value of goodwill exceeded fair value based on undiscounted cash flows and other factors including market capitalization, net book value, and other indicators of value. There was no impairment charge during the year ended December 31, 2002.

*Intangibles Amortization.* Intangibles amortization expense consists of amortization of goodwill and other intangibles arising from our acquisitions of LoreData, Inc. in January 2000, Compete, Inc. in May 2000, Core Objective, Inc. in November 2000, and Vertecon and Javelin in April 2002. Amortization decreased from \$15,312,000 during the year ended December 31, 2001 to \$1,286,000 during the year ended December 31, 2002. The decrease in amortization during the year ended December 31, 2002 compared to the year ended December 31, 2001 is due to our accounting for amortization in accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, effective January 1, 2002, that eliminated the amortization of goodwill and certain indefinite lived intangibles, as well as the impairment to goodwill recorded in the third quarter of 2001.

*Interest Income (Expense).* Interest income decreased from \$31,000 for the year ended December 31, 2001 to \$18,000 for the year ended December 31, 2002. The decrease in interest income

was due to a general decline in interest rates during 2002 and a lower average cash balance during the year ended December 31, 2002 compared to the year ended December 31, 2001. We recognized interest income of approximately \$3,500 during 2001 and \$11,000 during 2002 related to advances totaling \$800,000 made to Vertecon prior to the acquisition of Vertecon. The interest receivable from Vertecon was eliminated upon the acquisition of Vertecon. Interest expense was approximately \$122,000 during the year ended December 31, 2001 compared to \$204,000 during the year ended December 31, 2002. The increase in interest expense is the result of the imputed interest expense on the notes issued to the

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Javelin shareholders in the acquisition of Javelin. Imputed interest expense recognized during 2002 related to these notes was approximately \$63,000. The remaining increase in interest expense is the result of interest expense on capital lease obligations assumed in the acquisitions of Vertecon and Javelin. Interest expense on capital leases increased from \$5,000 during 2001 to \$39,000 during 2002.

### *Liquidity And Capital Resources*

In December 2001, we entered into a line of credit arrangement with Silicon Valley Bank that expires in December 2003. The agreement allows us to borrow up to 85% of eligible accounts receivable as defined in the agreement (up to a maximum of \$6,000,000). We are also required to comply with certain financial covenants under this agreement. Borrowings under the agreement bear interest at the bank's prime rate plus 1.5% (5.75% as of December 31, 2002). The agreement also provides for a minimum interest payment and early termination fee. As of December 31, 2002, there was \$540,011 outstanding and approximately \$1,424,000 remaining in availability under this line of credit. The line of credit agreement of Vertecon with The PrivateBank and the line of credit agreement of Javelin with Wells Fargo Bank were each satisfied in full and terminated on May 13, 2002. We used funds available under our line of credit with Silicon Valley Bank and available cash following the closings to satisfy the Vertecon and Javelin indebtedness.

In connection with the acquisitions of Javelin and Vertecon, we were required to establish various letters of credit totaling \$750,000 to serve as collateral for certain office space and equipment leases. These letters of credit reduce the borrowings available under our line of credit facility with Silicon Valley Bank. The letters of credit will totaling \$500,000 will remain in effect through 2005, and the remaining letter of credit of \$250,000 will remain in effect through 2007.

Cash provided by operations for the year ended December 31, 2002 was \$357,000. As of December 31, 2002, we had \$1,525,000 in cash and working capital of \$1,854,000.

On December 21, 2001, we entered into a Convertible Preferred Stock Purchase agreement under which we sold 1,984,000 shares of Series A Convertible Preferred Stock for a purchase price of \$1.00 per share. Each share of Series A Convertible Preferred Stock was initially convertible into one share of our common stock at the election of the holder. We also issued Warrants to purchase up to 992,000 shares of our common stock in connection with this issuance. We obtained access to \$825,000 of the funds from the sale of Series A Preferred Stock on January 29, 2002. The rest of the funds were being held in escrow subject to the completion of the Vertecon and Javelin mergers, and were released in May 2002 following the closing of the mergers. We used these funds to strengthen our working capital position and for other corporate purposes. As a result of the Series B Preferred Stock issuance (described below), the conversion ratio for the Series A Preferred Stock increased to approximately 1.00968. Additionally, as a result of the Series B Preferred Stock issuance, the number of warrants issued to the Series A investors increased to 1,001,604 and the exercise price was adjusted to \$1.98 per share.

We entered into a Convertible Preferred Stock Purchase Agreement, dated as of June 26, 2002, with 2M Technology Ventures, L.P. under which we sold 1,111,000 shares of our Series B Convertible Preferred Stock to 2M for a purchase price of approximately \$0.90 per share. Each share of Series B Convertible Preferred Stock was initially convertible into one share of our common stock at the

election of the holder. We have also issued to 2M, a Warrant to purchase up to 555,500 shares of our Common Stock in connection with this sale of Series B Preferred Stock.

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

Through April 26, 2002, we had made advances totaling \$800,000 in the form of promissory notes to Vertecon to fund Vertecon's short-term working capital requirements. These notes were canceled and forgiven upon the consummation of the Vertecon merger.

In connection with the acquisition of Javelin, we issued \$1.5 million in notes, of which \$1 million of the notes are payable in four equal annual installments on the anniversary of the closing date of the acquisition. The other \$500,000 is payable in eight equal quarterly installments that commenced in July 2002. Accordingly, we paid \$62,500 in July 2002 and \$62,500 in October 2002.

We expect to fund our operations during 2003 from cash generated from operations and short-term borrowings as necessary from our line of credit facility. The amount of borrowings available to us is based on a percentage of our receivables. If our capital is insufficient to fund our activities in either the short or long term, we may need to raise additional funds. In the ordinary course of business, we are continuing to 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 or outstanding preferred stock. Additional debt or equity financing may not be available when needed or on satisfactory terms. If adequate funds are not available on acceptable terms, we may be unable to expand our services, respond to competition, pursue acquisition opportunities or continue our operations.

### ***Critical Accounting Policies***

Consulting revenues are comprised of revenue from consulting fees recognized primarily on a time and material basis as performed. For fixed fee engagements, revenue is recognized on a percentage of completion method (based on the ratio of costs incurred to total estimated costs). Provisions for estimated losses on uncompleted contracts are made on a contract-by-contract basis and are recognized in the period in which such losses are determined. Unbilled revenues on contracts are comprised of costs plus earnings on certain contracts in excess of contractual billings on such contracts. Billings in excess of costs plus earnings are classified as deferred revenues. Our normal payment terms are net 30 days. Our agreement with IBM provides for net 45 day payment terms. Reimbursements for out-of-pocket expenses are included in gross revenue. Revenue from software resale is recorded on a gross basis provided that we act as principal in the transaction. In the event we do not meet the requirements to be considered the principal in the software resale transaction we record the revenue on a net basis. We record an expense for the expected losses on uncollectible accounts receivable each period based on known facts and circumstances at each respective period.

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

Business acquisitions typically result in goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. The determination of the value of such intangible assets requires us to make estimates and assumptions that affect our consolidated financial statements. We assesses potential impairments to intangible assets when there is evidence that events or

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changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of the acquired businesses, market conditions and other factors. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with the acquired businesses is impaired. Any resulting impairment loss could have an adverse impact on our results of operations by increasing our net loss.

### ***Recent Accounting Pronouncements***

In June 2002 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of commitment to an exit or disposal plan. This statement is effective for exit or disposal activities initiated after December 31, 2002. We do not believe that the adoption of SFAS No. 146 will have a material impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123*. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. Since we are continuing to account for stock-based compensation according to APB 25, adoption of SFAS No. 148 requires us to provide prominent disclosures about the affects of FAS 123 on reported income (loss) and will require us to disclose these affects in the interim financial statements as well.

## **ITEM 7 CONSOLIDATED FINANCIAL STATEMENTS**

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

## **ITEM 8 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**PART III**

Certain information required by Part III is omitted from this report because we intend to file a definitive Proxy Statement pursuant to Regulation 14A no later than 120 days after the end of the fiscal year covered by this report, and certain information to be included therein is incorporated herein by reference.

**ITEM 9 DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT**

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

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**ITEM 10 EXECUTIVE COMPENSATION**

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

**Equity Compensation Plan Information**

The following table provides information with respect to the equity securities that are authorized for issuance under our compensation plans as of December 31, 2002:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	3,780,573	\$ 3.02	1,461,298
Equity compensation plans not approved by security holders (2)(3)(4)	106,383	\$ 0.31	
<b>Total</b>	<b>3,886,956</b>	<b>\$ 2.95</b>	<b>1,461,298</b>

(1) Represents 5,346,085 shares authorized for issuance under the Perficient, Inc. 1999 Stock Option/Stock Issuance Plan. Pursuant to our automatic share increase program that was approved by shareholders at our 2001 Annual Meeting, approximately 843,000 additional shares were authorized for issuance under the plan as of January 1, 2003. The automatic share increase program provides for an increase each year equal to 8% of the outstanding Common Stock on the last trading day in December of the previous year.

(2) Represents options to purchase 106,383 shares of our Common Stock with an exercise price of \$0.31 per share that were granted in September 2001 to John T. McDonald, our Chief Executive Officer and Chairman of the Board, in lieu of a \$50,000 cash bonus.

- (3) In connection with the merger of Javelin Solutions, Inc. into our wholly-owned subsidiary and the merger of Primary Webworks, Inc. d/b/a Vertecon, Inc. into our wholly-owned subsidiary, we assumed Javelin's stock option plan and Vertecon's stock option plan and all the outstanding options thereunder. Each outstanding option under the Javelin plan and the Vertecon plan was converted into an option to purchase our Common Stock. No future awards may be made under the respective plans. These amounts exclude (i) options to purchase approximately 286,992 shares of our Common Stock exercisable for a weighted-average exercise price of \$0.85 per share issued in connection with our assumption of the Javelin plan and (ii) options to purchase approximately 78,263 shares of our Common Stock exercisable for a weighted average exercise price of \$4.40 per share issued in connection with our assumption of the Vertecon plan.
- (4) These amounts exclude options to purchase 91,817 shares of our Common Stock with an exercise price of \$3.36 per share and options to purchase 46,699 shares of our Common Stock with an exercise price of \$0.02 per share that were issued to certain employees of Compete, Inc. and assumed in connection with our May 2000 acquisition of Compete, Inc.

**ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

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

**ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

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

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

**(a)(1) Financial Statements**

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

Report of Independent Auditors	F-2
Consolidated Balance Sheets at December 31, 2001 and 2002	F-3
Consolidated Statements of Operations for the years ended December 31, 2001 and 2002	F-4
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2001 and 2002	F-5
Consolidated Statements of Cash Flows for the years ended December 31, 2001 and 2002	F-6
Notes to Consolidated Financial Statements	F-7

**(a)(2) Financial Statement Schedules**

Not applicable.

**(a)(3) Exhibits**

Exhibit Number	Description
2.1##	Agreement and Plan of Merger, dated as of September 30, 2001, by and among Perficient, Inc., Perficient Vertecon, Inc., Primary Webworks, Inc. d/b/a Vertecon, Inc., and certain shareholders of Vertecon, Inc.
2.2##	Agreement and Plan of Merger, dated as of October 26, 2001, by and among Perficient, Inc., Perficient Javelin, Inc., Javelin Solutions, Inc. and the shareholders of Javelin Solutions, Inc.
3.1+	Certificate of Incorporation of Perficient, Inc.
3.2+	Bylaws of Perficient Inc.
4.1+	Specimen Certificate for shares of common stock.
4.2+	Warrant granted to Gilford Securities Incorporated.

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Exhibit Number	Description
4.3+++	Certificate of Designation, Rights and Preferences of Series A Preferred Stock.
4.4+++	Form of Common Stock Purchase Warrant.
4.5###	