PERFICIENT INC
Form 10-K
March 06, 2009

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

FORM 10-K

(Mark one)

þ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2008

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

Commission file number 001-15169

PERFICIENT, INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	No. 74-2853258
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1120 South Capital of Texas Highway, Building 3, Suite 220
Austin, Texas 78746
(Address of principal executive offices)

(512) 531-6000
(Registrant's telephone number, including area code)

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

Title of each class:	Name of each exchange on which registered:
Common Stock, $0.001 par value	The Nasdaq Global Select Market

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the voting stock held by non-affiliates of the Company was approximately $288.8 million based on the last reported sale price of the Company's common stock on The Nasdaq Global Select Market on June 30, 2008.

As of February 27, 2009, there were 32,039,383 shares of Common Stock outstanding.

Portions of the definitive proxy statement in connection with the 2008 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than April 30, 2008, are incorporated by reference in Part III of this Form 10-K.

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PART I

Item 1. Business.

Overview

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

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

Our goal is to continue to build one of the leading independent information technology consulting firms in North America by expanding our relationships with existing and new clients, leveraging our operations to expand and continuing to make disciplined acquisitions. We believe that information technology consulting is a fragmented industry and that there are a substantial number of privately held information technology consulting firms in our target markets that, if acquired, can be strategically beneficial and accretive to earnings over time. We have a track record of identifying, executing and integrating acquisitions that add strategic value to our business. From April 2004 through November 2007, we acquired and integrated 12 information technology consulting firms. Given the current economic conditions, the Company has temporarily suspended making additional acquisitions pending improved visibility into the health of the economy and the information technology sector.

We believe we have built one of the leading independent information technology consulting firms in the United States. We serve our customers from locations in 19 markets throughout North America. In addition, as of December 31, 2008, we had 546 colleagues (defined as billable employees and subcontractors) who are part of "national" business units, who travel extensively to serve clients throughout North America and Europe. Our future growth plan includes expanding our business with a primary focus on the United States, both through increasing the number of professionals and through opening new offices, both organically and through acquisitions. We also intend to continue to leverage our existing offshore capabilities to support our growth and provide our clients flexible options for project delivery. In 2008, 97% of our revenues were derived from clients in the United States while 3% of our revenues were derived from clients in Canada and Europe. In 2007 and 2006, 99% of our revenues were derived from clients in the United States while 1% of our revenues were derived from clients in Canada and Europe. Over 98% of our total assets were located in the United States in 2008 and 2007 with the remainder located in Canada, China, and India.

We place strong emphasis on building lasting relationships with clients. Over the past three years ending December 31, 2008, an average of 82% of revenues was derived from clients who continued to utilize our services from the prior year, excluding from the calculation for any single period revenues from acquisitions completed in that year. We have also built meaningful relationships with software providers whose products we use to design and implement solutions for our clients. These relationships enable us to reduce our cost of sales and sales cycle times and increase success rates through leveraging our partners' marketing efforts and endorsements.

Industry Background

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

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United States Economy. Beginning in 2008, the United States economy began to experience a slowdown in growth. It is clear that the slowdown has had an effect on the information technology consulting industry in general and on demand for our services in particular, but the amount of the impact is uncertain as the slowdown is continuing as we enter 2009. According to the most recent forecast from independent market research firm Forrester Research, the decline in the economy will cause the growth in purchases of IT goods and services to decline to 1.6% in 2009, from 4.1% growth in 2008. We have provided services revenue guidance for 2009 of $180 million to $200 million which would represent a decline from 2008 services revenue, including reimbursable expenses, of 19% to 10%.

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

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

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

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

These factors continue to drive spending on software and related consulting services in the areas of application integration, middleware and portals (AIMP), as these segments play critical roles in the integration between new and existing systems and the extension of those systems to customers, suppliers and partners via the Internet. Companies are expected to continue to spend on integration broker suites, enterprise portal services, application platform suites and message-oriented middleware. As companies continue to spend on software and related consulting services, their spending on services will also continue, often by a multiplier of each dollar spent on software.

Quarterly Fluctuations. Our quarterly operating results are subject to seasonal fluctuations. The first and fourth quarters are impacted by professional staff vacation and holidays, as well as the timing of buying decisions by clients. Our results will also fluctuate, in part, based on whether we succeed in counterbalancing periodic declines in services revenues when a project or engagement is completed or cancelled by entering into arrangements to provide additional services to the same or other clients. Software sales are seasonal as well, with generally higher software demand during the third and fourth quarter. These and other seasonal factors may contribute to fluctuations in our operating results from quarter-to-quarter.

Competitive Strengths

We believe our competitive strengths include:

- Domain Expertise. We have acquired significant domain expertise in a core set of business-driven technology solutions and software platforms. These solutions include, among others, custom applications, portals and collaboration, eCommerce, customer relationship management, enterprise content management, business intelligence, business integration, mobile technology solutions, technology platform implementations and service oriented architectures and enterprise service bus. The platforms in which we have significant domain expertise and on which these solutions are built include IBM WebSphere, Lotus, Information Management and Rational, TIBCO BusinessWorks, Microsoft.NET, Oracle-Seibel, BEA (acquired by Oracle), Cognos (acquired by IBM) and Documentum, among others.

- Delivery Model and Methodology. We believe our significant domain expertise enables us to provide high-value solutions through expert project teams that deliver measurable results by working collaboratively with clients through a user-centered, technology-based and business-driven solutions methodology. Our eNable Methodology, a proven execution process map we developed, allows for repeatable, high quality services delivery. The eNable Methodology leverages the thought leadership of our senior strategists and practitioners to support the client project team and focuses on transforming our clients' business processes to provide enhanced customer value and operating efficiency, enabled by Web technology. As a result, we believe we are able to offer our clients the dedicated attention that small firms usually provide and the delivery and project management that larger firms usually offer.

- Client Relationships. We have built a track record of quality solutions and client satisfaction through the timely, efficient and successful completion of numerous projects for our clients. As a result, we have established long-term relationships with many of our clients who continue to engage us for additional projects and serve as references for us. Over the past three years ending December 31, 2008, an average of 82% of revenues was derived from clients who continued to utilize our services from the prior year, excluding from the calculation for any revenues from acquisitions completed in that year.

- Vendor Relationship and Endorsements. We have built meaningful relationships with software providers, whose products we use to design and implement solutions for our clients. These relationships enable us to reduce our cost of sales and sales cycle times and increase win rates by leveraging our partners' marketing efforts and endorsements. We also serve as a sales channel for our partners, helping them market and sell their software products. We are a Premier IBM business partner, a TeamTIBCO partner, a Microsoft Gold Certified Partner, a Certified Oracle Partner, and an EMC Documentum Select Services Team Partner. Our vendors have recognized our relationships with several awards. Most recently, the Company was honored with IBM’s Information Management 2007 Most Distinguished Partner (North America) Award and IBM’s Lotus 2008 Most Distinguished Partner (North America) Award.

- Geographic Focus. We believe we have built one of the leading independent information technology consulting firms in the United States. We serve our clients from locations in 19 markets throughout North America. In addition, as of December 31, 2008, we had 546 colleagues who are part of “national” business units, who travel extensively to serve clients primarily in North America and Europe. Our future growth plan includes expanding our business with a primary focus on the United States, both through increasing the number of professionals and through opening new offices, both organically and through acquisitions. We also intend to continue to leverage our existing offshore capabilities to support our growth and provide our clients flexible options for project delivery.

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Offshore Capability. We own and operate a CMMI Level 5 certified global development center in Hangzhou, China that was acquired in 2007. This facility is staffed with Perficient colleagues who provide offshore custom application development, quality assurance and testing services. Additionally, we have a relationship with an offshore development facility in Bitola, Macedonia. Through this facility we contract with a team of professionals with expertise in IBM, TIBCO and Microsoft technologies and with specializations that include application development, adapter and interface development, quality assurance and testing, monitoring and support, product development, platform migration, and portal development. In addition to our offshore capabilities, we employ a substantial number of foreign nationals in the United States on H1-B visas. In 2007, we acquired a recruiting facility in Chennai, India, to continue to grow our base of H1-B foreign national colleagues. As of December 31, 2008, we had 133 colleagues at the Hangzhou, China facility and 215 colleagues with H1-B visas.

Our Solutions

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

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

Our business-driven technology solutions include the following:

- Enterprise portals and collaboration. We design, develop, implement and integrate secure and scalable enterprise portals for our clients and their customers, suppliers and partners that include searchable data systems, collaborative systems for process improvement, transaction processing, unified and extended reporting and content management and personalization.

- Business integration. We design, develop and implement business integration solutions that allow our clients to integrate all of their business processes end-to-end and across the enterprise. Truly innovative companies are extending those processes, and eliminating functional friction, between the enterprise and core customers and partners. Our business integration solutions can extend and extract core applications, reduce infrastructure strains and cost, Web-enable legacy applications, provide real-time insight into business metrics and introduce efficiencies for customers, suppliers and partners.

- Enterprise content management (ECM). We design, develop and implement ECM solutions that enable the management of all unstructured information regardless of file type or format. Our ECM solutions can facilitate the creation of new content and/or provide easy access and retrieval of existing digital assets from other enterprise tools such as enterprise resource planning (ERP), customer relationship management or legacy applications. Perficient's ECM solutions include Enterprise Imaging and Document Management, Web Content Management, Digital Asset Management, Enterprise Records Management, Compliance and Control, Business Process Management and Collaboration and Enterprise Search.

- Customer relationship management (CRM). We design, develop and implement advanced CRM solutions that facilitate customer acquisition, service and support, sales, and marketing by understanding our customers' needs through interviews, facilitated requirements gathering sessions and call center analysis, developing an iterative, prototype driven solution and integrating the solution to legacy processes and applications.

- Service oriented architectures (SOA) and enterprise service bus. We design, develop and implement SOA and enterprise service bus solutions that allow our clients to quickly adapt their business processes to respond to new market opportunities or competitive threats by taking advantage of business strategies supported by flexible business applications and IT infrastructures.

- Business intelligence. We design, develop and implement business intelligence solutions that allow companies to interpret and act upon accurate, timely and integrated information. By classifying, aggregating and correlating data into meaningful business information, business intelligence solutions help our clients make more informed business decisions. Our business intelligence solutions allow our clients to transform data into knowledge for quick and effective decision making and can include information strategy, data warehousing and business analytics and reporting.

- eCommerce. We design, develop and implement secure and reliable eCommerce infrastructures that dynamically integrate with back-end systems and complementary applications that provide for transaction volume scalability and sophisticated content management.

- Mobile technology solutions. We design, develop and implement mobile technology solutions that deliver wireless capabilities to carriers, Mobile Virtual Network Operators (MVNO), Mobile Virtual Network Enablers (MVNE), and the enterprise. Perficient's expertise with wireless technologies such as SIP, MMS, WAP, and GPRS are coupled with our deep expertise in mobile content delivery. Our secure and scalable solutions can include mobile content delivery systems; wireless value-added services including SIP, IMS, SMS, MMS and Push-to-Talk; custom developed applications to pervasive devices including Symbian, WML, J2ME, MIDP, Linux; and customer care solutions including provisioning, mediation, rating and billing.

- Technology platform implementations. We design, develop and implement technology platform implementations that allow our clients to establish a robust, reliable Internet-based infrastructure for integrated business applications which extend enterprise technology assets to employees, customers, suppliers and partners. Our Platform Services include application server selection, architecture planning, installation and configuration, clustering for availability, performance assessment and issue remediation, security services and technology migrations.

- Custom applications. We design, develop, implement and integrate custom application solutions that deliver enterprise-specific functionality to meet the unique requirements and needs of our clients. Perficient's substantial experience with platforms including J2EE, .Net and open-source - plus our flexible delivery structure - enables enterprises of all types to leverage cutting-edge technologies to meet business-driven needs.

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

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

Our Solutions Methodology

Our approach to solutions design and delivery is user-centered, technology-based and business-driven and is:

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

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

Our Strategy

Our goal is to be the premier technology management consulting firm primarily focused on the United States. To achieve our goal, our strategy is:

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

- Continue Making Purchases of Equity Securities. In an ongoing effort to provide the most value to our stockholders, the Board of Directors authorized the repurchase of up to $20.0 million of our common stock as part of a program that expires at the end of June 2010. We believe our stock is undervalued and the repurchase program is the best use of a portion of our excess cash at this time. We will continually re-evaluate the position of our stock price and will seek additional authorization to repurchase our common stock if we believe appropriate.

- Continue Making Disciplined Acquisitions Once the Economic Environment and Relative Valuations Improve. The information technology consulting market is a fragmented industry and we believe there are a substantial number of smaller privately held information technology consulting firms that can be acquired and be accretive to our financial results. We have a track record of successfully identifying, executing and integrating acquisitions that add strategic value to our business. Our established culture and infrastructure positions us to successfully integrate each acquired company, while continuing to offer effective solutions to our clients. From April 2004 through November 2007, we have acquired and integrated 12 information technology consulting firms. Given the current economic conditions, the Company has temporarily suspended making additional acquisitions pending improved visibility into the health of the economy and the information technology sector and improvement of the relative valuation between the Company's common stock price and the private market valuations of potential acquisitions.

- Expand Geographic Base. We believe we have built one of the leading independent information technology consulting firms in the United States. We serve our customers from our network of 19 offices throughout North America. In addition, as of December 31, 2008, we had 546 colleagues who are part of "national" business units, who travel extensively to serve clients primarily in North America and Europe. Our future growth plan includes expanding our business with a primary focus on the United States, both through increasing the number of professionals and through opening new offices, both organically and through acquisitions. We also intend to continue to leverage our existing 'offshore' capabilities to support our growth and provide our clients flexible options for project delivery.

- Enhance Brand Visibility. Our focus on a core set of business-driven technology solutions, applications and software platforms and a targeted customer and geographic market has given us market visibility. In addition, we believe we have achieved critical mass in size, which has enhanced our visibility among prospective clients, employees and software vendors. As we continue to grow our business, we intend to highlight to customers and prospective customers our leadership in business-driven technology solutions and infrastructure software technology platforms.

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

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

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Expand and Enhance Our Industry Vertical Focus. In 2008 we launched two industry focused practices, healthcare and communications. The goals of these industry verticals is to recruit and retain consultants with specific industry expertise and to 'mine' and leverage the intellectual property the Company has and accumulates as we serve clients within these industries. Expanding these verticals will help the Company in terms of revenue generation as well as market expansion beyond our geographic and solution focused business units. Some other industries we have meaningful expertise in include energy, consumer product goods, manufacturing and distribution, and financial services.

- Leverage Offshore Capabilities. Our solutions and services are primarily delivered at the customer site and require a significant degree of customer participation, interaction and specialized technology expertise. We can compliment this with lower cost offshore technology professionals to perform less specialized roles on our solution engagements, enabling us to fully leverage our United States colleagues while offering our clients a highly competitive blended average rate. We own and operate a CMMI Level 5 certified global development center in Hangzhou, China that is staffed with Perficient colleagues who provide offshore custom application development, quality assurance and testing services and we maintain an exclusive arrangement with an offshore development and delivery firm in Macedonia. In addition to our offshore capabilities, we employ a substantial number of H1-B foreign nationals in the United States. In 2007, we acquired a recruiting facility in Chennai, India, to continue to grow our base of H1-B foreign national colleagues. As of December 31, 2008 we had 133 colleagues at the Hangzhou, China facility and 215 colleagues with H1-B visas.

Sales and Marketing

As of December 31, 2008, we had a 48 person direct solutions-oriented sales force. Our sales team is experienced and connected through a common services portfolio, sales process and performance management system. Our sales process utilizes project pursuit teams that include those of our information technology professionals best suited to address a particular prospective client's needs. We reward our sales force for developing and maintaining relationships with our clients and seeking out follow-up engagements as well as leveraging those relationships to forge new ones in different areas of the business and with our clients' business partners. Approximately 85% of our sales are executed by our direct sales force. In addition to our direct sales team we also have 24 dedicated sales support employees, four regional vice-presidents and 13 business unit general managers who are engaged in the sales and marketing efforts.

Our primary target client base includes companies in North America with annual revenues in excess of $500 million. We believe this market segment can generate the repeat business that is a fundamental part of our growth plan. We primarily pursue solutions opportunities where our domain expertise and delivery track record give us a competitive advantage. We also typically target engagements of up to $5 million in fees, which we believe to be below the target project range of most large systems integrators and beyond the delivery capabilities of most local boutiques.

We have sales and marketing partnerships with software vendors including IBM Corporation, TIBCO Software, Inc., Microsoft Corporation, Documentum, Oracle-Siebel, BEA (acquired by Oracle), and webMethods, Inc. These companies are key vendors of open standards based software commonly referred to as middleware application servers, enterprise application integration platforms, business process management, business activity monitoring and business intelligence applications and enterprise portal server software. Our direct sales force works in tandem with the sales and marketing groups of our partners to identify potential new clients and projects. Our partnerships with these companies enable us to reduce our cost of sales and sales cycle times and increase win rates by leveraging our partners' marketing efforts and endorsements. In particular, the IBM and Oracle software sales channels provide us with significant sales lead flow and joint selling opportunities.

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

Clients

During the year ended December 31, 2008, we provided services to 530 customers. No one customer provided more than 10% of our total revenues in 2008, 2007 or 2006.

Competition

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

- small local consulting firms that operate in no more than one or two geographic regions;
- regional consulting firms such as Brulant, Prolifics and MSI Systems Integrators;
- national consulting firms, such as Accenture, BearingPoint, Deloitte Consulting, Ciber, and Sapient;
- in-house professional services organizations of software companies; and
- to a limited extent, offshore providers such as Infosys Technologies Limited and Wipro Limited.

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

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

Employees

As of December 31, 2008, we had 1,186 employees, 1,019 of which were billable professionals and 167 were involved in sales, general administration and marketing. None of our employees are represented by a collective bargaining agreement and we have never experienced a strike or similar work stoppage. We consider our relations with our employees to be good.

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

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

Retention. We believe that our rapid growth, focus on a core set of business-driven technology solutions, applications and software platforms and our commitment to career development through continued training and advancement opportunities make us an attractive career choice for experienced professionals. Because our strategic partners are established and emerging market leaders, our technology professionals have an opportunity to work with cutting-edge information technology. We foster professional development by training our technology professionals in the skills critical to successful consulting engagements such as implementation methodology and project management. We believe in promoting from within whenever possible. In addition to an annual review process that identifies near-term and longer-term career goals, we make a professional development plan available to assist our professionals with assessing their skills and developing a detailed action plan for guiding their career development. For the year ended December 31, 2008, our voluntary attrition rate was approximately 22%. The annualized voluntary attrition rate for the second half of 2008 was 19%.

Training. To ensure continued development of our technical staff, we place a high priority on training. We offer extensive training for our professionals around industry-leading technologies. We utilize our education practice to provide continuing education and professional development opportunities for our colleagues. Additionally, most newly-hired Perficient colleagues attend Perficient 101, an orientation training course held at our operational headquarters location in St. Louis where they learn general company procedures and protocols and benefit from a role-based curriculum.

Compensation. Our employees have a compensation model that includes a base salary and an incentive compensation component. Our tiered incentive compensation plans help us reach our overall goals by rewarding individuals for their influence on key performance factors. Key performance metrics include client satisfaction, revenues generated, utilization, profit and personal skills growth. Senior level employees (approximately 16% of our employees) are eligible to receive restricted stock awards. These awards generally vest over a five year period.

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

Culture

The Perficient Promise. We have developed the “Perficient Promise,” which consists of the following six simple commitments our colleagues make to each other:

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

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

Knowledge Management

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

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

Wiki. We maintain an internal wiki where multiple sites are set up to foster collaboration and knowledge-sharing around various solution areas, technologies and functional disciplines. The wiki is a collaborative webpage designed to efficiently educate colleagues and enable and enhance productivity.

General Information

Our stock is traded on the Nasdaq Global Select Market under the symbol “PRFT.” Our website can be visited at www.perficient.com. We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) as soon as reasonably practicable after we electronically file such material, or furnish it to, the Securities and Exchange Commission. The information contained or incorporated in our website is not part of this document.

Item 1A. Risk Factors.

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

Risks Related to Our Business

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

Our results of operations are affected by the levels of business activities of our clients, which can be affected by economic conditions in the United States and globally. During periods of economic downturns, our clients may decrease their demand for information technology services. In 2008, general worldwide economic conditions have experienced a downturn due to slower economic activity, concerns about inflation and deflation, decreased consumer confidence, reduced corporate profits, capital spending, and adverse business conditions. These conditions may cause our customers to delay or cancel information technology projects, reduce their overall information technology budgets and/or reduce or cancel orders for our services. This, in turn, may lead to longer sales cycles, delays in purchase decisions, payment and collection issues, and may also result in price pressures, causing us to realize lower revenues and operating margins. Additionally, if our clients cancel or delay their business and technology initiatives or choose to move these initiatives in-house, our business, financial condition and results of operations could be materially and adversely affected.

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

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

An increasing amount of information technology services are being provided by lower-cost non-domestic resources. The increased utilization of these resources for U.S.-based projects could result in lower revenues and margins for U.S.-based information technology companies. Our ability to compete utilizing higher-cost domestic resources and/or our ability to procure comparably priced off-shore resources could adversely impact our results of operations and financial condition.

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

This may place us at a disadvantage to our competitors, which may harm our ability to grow, maintain revenues or generate net income.

In recent years, there has been substantial consolidation in our industry, and we expect that there will be additional consolidation in the future. As a result of this increasing consolidation, we expect that we will increasingly compete with larger firms that have broader product offerings and greater financial resources than we have. We believe that this competition could have a negative effect on our marketing, distribution and reselling relationships, pricing of services and products and our product development budget and capabilities. One or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting their profit margins. In addition, competitors may win client engagements by significantly discounting their services in exchange for a client’s promise to purchase other goods and services from the competitor, either concurrently or in the future. These activities may potentially force us to lower our prices and suffer reduced operating margins. Any of these negative effects could significantly impair our results of operations and financial condition. We may not be able to compete successfully against new or existing competitors.

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

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

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

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

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

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

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

International operations subject us to additional political and economic risks that could have an adverse impact on our business.

In 2007, we acquired a global development center in Hangzhou, China. Also in 2007, we acquired a subsidiary which operates a technology consulting recruiting office in Chennai, India. Because of our limited experience with facilities outside of the United States, we are subject to certain risks related to expanding our presence into non-U.S. regions, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain technologies and multiple and possibly overlapping tax structures. In addition, we may face competition from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture.

Furthermore, there are risks inherent in operating in and expanding into non-U.S. regions, including, but not limited to:

- political and economic instability;

- global health conditions and potential natural disasters;
- unexpected changes in regulatory requirements;
- international currency controls and exchange rate fluctuations;
- reduced protection for intellectual property rights in some countries; and
- additional vulnerability from terrorist groups targeting American interests abroad.

Any one or more of the factors set forth above could have a material adverse effect on our international operations, and, consequently, on our business, financial condition and operating results.

Immigration restrictions related to H1-B visas could hinder our growth and adversely affect our business, financial condition and results of operations.

Approximately 19% of our billable workforce is comprised of skilled foreigners holding H1-B visas. We also own a recruiting facility in Chennai, India, to continue to grow our base of H1-B foreign national colleagues. The H1-B visa classification enables us to hire qualified foreign workers in positions that require the equivalent of at least a bachelor's degree in the U.S. in a specialty occupation such as technology systems engineering and analysis. The H1-B visa generally permits an individual to work and live in the U.S. for a period of three to six years, with some extensions available. The number of new H1-B petitions approved in any federal fiscal year is limited, making the H1-B visas necessary to bring foreign employees to the U.S. unobtainable in years in which the limit is reached. If we are unable to obtain all of the H1-B visas for which we apply, our growth may be hindered.

There are strict labor regulations associated with the H1-B visa classification and users of the H1-B visa program are subject to investigations by the Wage and Hour Division of the United States Department of Labor. If we are investigated, a finding by the U.S. Department of Labor of willful or substantial failure by us to comply with existing regulations on the H1-B classification could result in back-pay liability, substantial fines, or a ban on future use of the H1-B program and other immigration benefits, any of which could materially and adversely affect our business, financial condition and results of operations.

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

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

Our success depends on attracting and retaining senior management and key personnel.

The information technology services industry is highly specialized and the competition for qualified management and key personnel is intense. We believe that our success depends on retaining our senior management team and key technical and business consulting personnel. Retention is particularly important in our business as personal relationships are a critical element of obtaining and maintaining strong relationships with our clients. In addition, as we continue to grow our business, our need for senior experienced management and implementation personnel increases. If a significant number of these individuals depart the Company, or if we are unable to attract top talent, our level of management, technical, marketing and sales expertise could diminish or otherwise be insufficient for our growth. We may be unable to achieve our revenues and operating performance objectives unless we can attract and retain technically qualified and highly skilled sales, technical, business consulting, marketing and management personnel. These individuals would be difficult to replace, and losing them could seriously harm our business.

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

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

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

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

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

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

We could be subject to liabilities if our subcontractors or the third parties with whom we partner cannot deliver their project contributions on time or at all.

Large and complex arrangements often require that we utilize subcontractors or that our services and solutions incorporate or coordinate with the software, systems or infrastructure requirements of other vendors and service providers. Our ability to serve our clients and deliver and implement our solutions in a timely manner depends on the ability of these subcontractors, vendors and service providers to meet their project obligations in a timely manner, as well as on our effective oversight of their performance. The quality of our services and solutions could suffer if our subcontractors or the third parties with whom we partner do not deliver their products and services in accordance with project requirements. If our subcontractors or these third parties fail to deliver their contributions on time or at all or if their contributions do not meet project requirements or require us to incur unanticipated costs to meet these requirements, then our ability to perform could be adversely affected and we might be subject to additional liabilities, which could have a material adverse effect on our business, revenues, profitability or cash flow.

Our profitability could suffer if we are not able to control our costs.

Our ability to control our costs and improve our efficiency affects our profitability. As the continuation of pricing pressures could result in permanent changes in pricing policies and delivery capabilities, we must continuously improve our management of costs. Our short-term cost reduction initiatives, which focus primarily on reducing variable costs, might not be sufficient to deal with all pressures on our pricing. Our long-term cost-reduction initiatives, which focus on reductions in costs for service delivery and infrastructure, rely upon our successful introduction and coordination of multiple geographic and competency workforces and a growing focus on our offshore capabilities. As we increase the number of our professionals and execute our strategies for growth, we might not be able to manage significantly larger and more diverse workforces, control our costs or improve our efficiency, and our profitability could be negatively affected.

If our negotiated fees do not accurately anticipate the cost and complexity of performing our work, then our contracts could be unprofitable.

We negotiate fees with our clients utilizing a range of pricing structures and conditions. Depending on the particular contract, these include time-and-materials, fixed-fee, and contracts with features of both of these pricing models. Our fees are highly dependent on our internal forecasts and predictions about our projects and the marketplace, which might be based on limited data and could turn out to be inaccurate. If we do not accurately estimate the costs and timing for completing projects, our contracts could prove unprofitable for us or yield lower profit margins than anticipated. We could face greater risk when negotiating fees for our contracts that entail the coordination of operations and workforces in multiple locations, utilizing workforces with different skillsets and competencies. There is a risk that we will under price our contracts, fail to accurately estimate the costs of performing the work or fail to accurately assess the risks associated with potential contracts. In particular, any increased or unexpected costs, delays or failures to achieve anticipated cost savings, or unexpected risks we encounter in connection with the performance of this work, including those caused by factors outside our control, could make these contracts less profitable or unprofitable, which could have an adverse effect on our profit margin.

We are subject to credit risk related to our accounts receivable.

We provide credit to our customers in the normal course of business and we do not generally obtain collateral or up-front payments. Accordingly, we are not protected against accounts receivable default or bankruptcy by our customers. Although we perform ongoing credit evaluations of our customers and maintain allowances for potential credit losses, such actions and procedures may not be effective in reducing our credit risks and our business, financial condition and results of operations could be materially and adversely affected. During periods of economic decline, our exposure to credit risks related to our accounts receivable increases.

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

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

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

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

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

Our quarterly revenues, expenses and operating results have varied in the past and could vary in the future, which could lead to volatility in our stock price. In addition, many factors affecting our operating results are outside of our control, such as:

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

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 in any particular quarter.

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

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

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

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

Our overall gross margin fluctuates quarterly based on our services and software revenues mix, impacting our results of operations.

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

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

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

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

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

In 2008, approximately 13% of our projects were performed on a fixed-fee basis, rather than on a time-and-materials basis. Under these contractual arrangements, we bear the risk of cost overruns, completion delays, wage inflation and other cost increases. If we fail to estimate accurately the resources and time required to complete a project or fail to complete our contractual obligations within the scheduled timeframe, our results of operations could be adversely affected. We cannot guarantee that in the future we will not price these contracts inappropriately, which may result in losses.

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

Although we have been profitable for the past five years, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future and in fact could experience decreased profitability. If we fail to meet public market analysts' and investors' expectations, the price of our common stock will likely fall.

Our services may infringe upon the intellectual property rights of others.

We cannot be sure that our services do not infringe on the intellectual property rights of third parties, and we may have infringement claims asserted against us. These claims may harm our reputation, cause our management to expend significant time in connection with any defense and cost us money. We may be required to indemnify clients for any expense or liabilities they incur resulting from claimed infringement and these expenses could exceed the amounts paid to us by the client for services we have performed. Any claims in this area, even if won by us, can be costly, time-consuming and harmful to our reputation.

We have only a limited ability to protect our intellectual property rights, which are important to our success.

Our success depends, in part, upon our ability to protect our proprietary methodologies and other intellectual property. Existing laws of some countries in which we provide services or solutions might offer only limited protection of our intellectual property rights. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements to protect our intellectual property rights. The steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights.

Depending on the circumstances, we might need to grant a specific client greater rights in intellectual property developed in connection with a contract than we otherwise generally do. In certain situations, we might forego all rights to the use of intellectual property we help create, which would limit our ability to reuse that intellectual property for other clients. Any limitation on our ability to provide a service or solution could cause us to lose revenue-generating opportunities and require us to incur additional expenses to develop new or modified solutions for future projects.

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

If we pursue any acquisition, our management could spend a significant amount of time and financial resources to pursue and integrate the acquired business with our existing business. To pay for an acquisition, we might use capital stock, cash or a combination of both. Alternatively, we may borrow money from a bank or other lender. If we use capital stock, our stockholders will experience dilution. If we use cash or debt financing, our financial liquidity may be reduced and the interest on any debt financing could adversely affect our results of operations. From an accounting perspective, an acquisition that does not perform as well as originally anticipated may involve amortization or the impairment of significant amounts of intangible assets that could adversely affect our results of operations.

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

- difficulties in the integration of services and personnel of the acquired business;
- the failure of management and acquired services personnel to perform as expected;
- the acquisition of fixed fee customer agreements that require more effort than anticipated to complete;
- the risks of entering markets in which we have no, or limited, prior experience, including offshore operations in countries in which we have no prior experience;
- the failure to identify or adequately assess any undisclosed or potential liabilities or problems of the acquired business including legal liabilities;
- the failure of the acquired business to achieve the forecasts we used to determine the purchase price; or
- the potential loss of key personnel of the acquired business.

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

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

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

Risks Related to Ownership of Our Common Stock

Our stock price has been volatile and may continue to fluctuate widely.

Our common stock is traded on the Nasdaq Global Select Market under the symbol “PRFT.” Our common stock price has been volatile. Our stock price may continue to fluctuate widely as a result of announcements of new services and products by us or our competitors, quarterly variations in operating results, the gain or loss of significant customers, changes in public market analysts' estimates and market conditions for information technology consulting firms and other technology stocks in general.

We periodically review and consider possible acquisitions of companies that we believe will contribute to our long-term objectives. In addition, depending on market conditions, liquidity requirements and other factors, from time to time we consider accessing the capital markets. These events may also affect the market price of our common stock.

Declines in our stock price and/or operating performance could result in a future impairment of our goodwill or long-lived assets.

We assess potential impairments to goodwill annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. We assess potential impairments to our long-lived assets, including property and equipment and certain intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. General economic conditions in the U.S. have recently adversely impacted the trading prices of securities of many companies, including ours, due to concerns regarding recessionary economic conditions, the lending and financial crisis, a substantial slowdown in economic activity, decreased consumer confidence and other factors. In addition, the trading prices of the securities in our industry have been highly volatile. Subsequent to December 31, 2008 our stock price has declined. If the trading price of our common stock were to continue to be adversely affected due to worsening general economic conditions, significant changes in our financial performance or other factors, these events could result in a non-cash impairment charge related to our goodwill or long-lived assets. A significant impairment loss could have a material adverse effect on our operating results and on the carrying value of our goodwill and/or our long-lived assets on our balance sheet.

Our officers, directors, and 5% and greater stockholders own a large percentage of our voting securities and their interests may differ from other stockholders.

Our executive officers, directors and 5% and greater stockholders beneficially own or control approximately 18% of the voting power of our common stock. This concentration of voting power of our common stock may make it difficult for our other 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.

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 intend to continue to make investments to support our business growth and may require additional funds to pursue business opportunities and respond to business challenges. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us, if we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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

In addition to the large percentage of our voting securities held by our officers, directors and 5% and greater stockholders, provisions contained in our certificate of incorporation, bylaws and Delaware law could make it difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. Our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition that a stockholder may consider favorable by authorizing the issuance of “blank check” preferred stock. In addition, provisions of the Delaware General Corporation Law also restrict some business combinations with interested stockholders. These provisions are intended to encourage potential acquirers to negotiate with us and allow the board of directors the opportunity to consider alternative proposals in the interest of maximizing stockholder value. However, these provisions may also discourage acquisition proposals or delay or prevent a change in control, which could harm our stock price.

Item 1B. Unresolved Staff Comments.

None.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

aware that those statements only reflect our predictions. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements are disclosed under the heading “Risk Factors” in this annual report.

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

All forward-looking statements, express or implied, included in this report and the documents we incorporate by reference and attributable to Perficient are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that Perficient or any persons acting on our behalf may issue.

Item 2. Properties.

Our principal executive, administrative, finance and marketing operations are located in St. Louis, Missouri and Austin, Texas, where we have leased approximately 10,079 square feet and 2,700 square feet, respectively, for these functions. We lease 19 offices in major cities across North America and China. We do not own any real property. We believe our facilities are adequate to meet our needs in the near future.

Item 3. Legal Proceedings.

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

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

No matters were submitted to a shareholder vote during the quarter ended December 31, 2008.

PART II

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

Our common stock is quoted on the Nasdaq Global Select Market under the symbol “PRFT.” The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on the Nasdaq Global Select Market since January 1, 2007.

	High	Low
Year Ending December 31, 2008:		
First Quarter	$ 17.08	$ 6.43
Second Quarter	11.91	7.82
Third Quarter	10.94	6.04
Fourth Quarter	6.80	2.31
Year Ending December 31, 2007:		
First Quarter	$ 21.55	$ 16.02
Second Quarter	23.29	18.51
Third Quarter	25.19	18.91
Fourth Quarter	24.75	14.65

On February 27, 2009, the last reported sale price of our common stock on the Nasdaq Global Select Market, a tier of The NASDAQ Stock Market LLC, was $3.52 per share. There were approximately 377 stockholders of record of our common stock as of February 27, 2009, including 237 restricted account holders.

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

Information on our Equity Compensation Plan has been included at Part III, Item 12, of this Form 10-K.

Issuer Purchases of Equity Securities

In December 2008, the Company’s Board of Directors approved an increase under the share repurchase program by up to $10.0 million. This is in addition to the remaining share repurchase authority under the March 2008 program of up to $10.0 million for a combined total of up to $20.0 million. The repurchase program expires June 30, 2010. While it is not the Company’s intention, the program could be suspended or discontinued at any time, based on market, economic or business conditions. The timing and amount of repurchase transactions will be determined by the Company’s management based on its evaluation of market conditions, share price and other factors.

The Company had repurchased approximately $9.2 million of its outstanding common stock under the program as of December 31, 2008.

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Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
Beginning Balance as of October 1, 2008	637,031		637,031	$ 5,213,570
October 1-31, 2008	91,018	5.22	91,018	$ 4,745,283
November 1-30, 2008	671,887	3.59	671,887	$ 2,672,362
December 1-31, 2008	448,364	4.25	448,364	$ 10,821,786
Ending Balance as of December 31, 2008	1,848,300		1,848,300	

(1) Average price paid per share includes commission.
(2) The additional program to repurchase up to $10.0 million of the Company's outstanding common stock was approved by the Company's Board of Directors on December 17, 2008. This is in addition to the repurchase authority for up to $10.0 million of the Company's common stock approved by the Company's Board of Directors on March 26, 2008. The repurchase program expires June 30, 2010.

Item 6. Selected Financial Data.

The selected financial data presented for, and as of the end of, each of the years in the five-year period ended December 31, 2008, has been prepared in accordance with U.S. generally accepted accounting principles. The financial data presented is not directly comparable between periods as a result of the adoption of Statement of Financial Accounting Standards No. 123R (As Amended), Share Based Payment ("SFAS 123R") in 2006, and four acquisitions in 2007, three acquisitions in 2006, two acquisitions in 2005, and three acquisitions in 2004.

The following data should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements appearing in Part II, Item 8, and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Part II, Item 7.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
Income Statement Data:			(In thousands)		
Revenues	$ 231,488	$ 218,148	$ 160,926	$ 96,997	$ 58,848
Gross margin	$ 73,502	$ 75,690	$ 53,756	$ 32,418	$ 18,820
Selling, general and administrative	$ 47,242	$ 41,963	$ 32,268	$ 17,917	$ 11,068
Depreciation and amortization	$ 6,949	$ 6,265	$ 4,406	$ 2,226	$ 1,209
Impairment of intangible assets	$ 1,633	$ --	$ --	$ --	$ --
Income from operations	$ 17,678	$ 27,462	$ 17,082	$ 12,275	$ 6,543
Net interest income (expense)	$ 528	$ 172	$ (407)	$ (643)	$ (134)
Net other income (expense)	$ (915)	$ 20	$ 174	$ 43	$ 32
Income before income taxes	$ 17,291	$ 27,654	$ 16,849	$ 11,675	$ 6,441
Net income	$ 10,000	$ 16,230	$ 9,567	$ 7,177	$ 3,913

	As of December 31,				
	2008	2007	2006	2005	2004
Balance Sheet Data:			(In thousands)		
Cash and cash equivalents	$ 22,909	$ 8,070	$ 4,549	$ 5,096	$ 3,905
Working capital	$ 56,176	$ 41,368	$ 24,859	$ 17,078	$ 9,234
Property and equipment, net	$ 2,345	$ 3,226	$ 1,806	$ 960	$ 806
Goodwill and intangible assets, net	$ 115,634	$ 121,339	$ 81,056	$ 52,031	$ 37,340
Total assets	$ 194,247	$ 189,992	$ 131,000	$ 84,935	$ 62,582
Current portion of long term debt and line of credit	$ --	$ --	$ 1,201	$ 1,581	$ 1,379
Long-term debt and line of credit, less current portion	$ --	$ --	$ 137	$ 5,338	$ 2,902
Total stockholders' equity	$ 174,818	$ 165,562	$ 107,352	$ 65,911	$ 44,622

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

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

Overview

We are an information technology consulting firm serving Forbes Global 2000 (“Global 2000”) and other large enterprise companies with a primary focus on the United States. We help our clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with their customers, suppliers and partners, improve productivity and reduce information technology costs. We design, build and deliver business-driven technology solutions using third party software products developed by our partners. Our solutions include custom applications, portals and collaboration, eCommerce, customer relationship management, enterprise content management, business intelligence, business integration, mobile technology, technology platform implementations and service oriented architectures. Our solutions enable clients to meet the changing demands of an increasingly global, Internet-driven and competitive marketplace.

Services Revenues

Services revenues are derived from professional services performed developing, implementing, integrating, automating and extending business processes, technology infrastructure, and software applications. Most of our projects are performed on a time and materials basis, and a smaller amount of revenues is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 13% of our services revenues for the twelve months ended December 31, 2008. For time and material projects, revenues are recognized and billed by multiplying the number of hours our professionals expend in the performance of the project by the established billing rates. For fixed fee projects, revenues are generally recognized using the proportionate performance method. Revenues on uncompleted projects are recognized on a contract-by-contract basis in the period in which the portion of the fixed fee is complete. Amounts invoiced to clients in excess of revenues recognized are classified as deferred revenues. On most projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenues. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our customers, the total number of our projects that require travel, and whether our arrangements with our clients provide for the reimbursement of travel and other project related expenses.

Software and Hardware Revenues

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

If we enter into contracts for the sale of services and software or hardware, Company management evaluates whether the services are essential to the functionality of the software or hardware and whether the Company has objective fair value evidence for each deliverable in the transaction. If management concludes the services to be provided are not essential to the functionality of the software or hardware and can determine objective fair value evidence for each deliverable of the transaction, then we account for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of our multiple element arrangements meet these separation criteria.

Cost of revenues

Cost of revenues consists primarily of cash and non-cash compensation and benefits, including bonuses and non-cash compensation related to equity awards, associated with our technology professionals. Cost of revenues also includes the costs associated with subcontractors. Third-party software and hardware costs, reimbursable expenses and other unreimbursed project related expenses are also included in cost of revenues. Project related expenses will fluctuate generally depending on outside factors including the cost and frequency of travel and the location of our customers. Cost of revenues does not include depreciation of assets used in the production of revenues which are primarily personal computers, servers and other information technology related equipment.

Gross Margins

Our gross margins for services are affected by the utilization rates of our professionals, defined as the percentage of our professionals' time billed to customers divided by the total available hours in the respective period, the salaries we pay our consulting professionals and the average billing rate we receive from our customers. If a project ends earlier than scheduled or we retain professionals in advance of receiving project assignments, or if demand for our services declines, our utilization rate will decline and adversely affect our gross margins. Gross margin percentages of third party software and hardware sales are typically lower than gross margin percentages for services, and the mix of services and software and hardware for a particular period can significantly impact our total combined gross margin percentage for such period. In addition, gross margin for software and hardware sales can fluctuate due to pricing and other competitive pressures.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") consist of salaries, benefits, bonuses, non-cash compensation, office costs, recruiting, professional fees, sales and marketing activities, training, and other miscellaneous expenses. Non-cash compensation includes stock compensation expenses related to restricted stock, option grants to employees and non-employee directors, and retirement savings plan contributions. We work to minimize selling costs by focusing on repeat business with existing customers and by accessing sales leads generated by our software vendors, most notably IBM, whose products we use to design and implement solutions for our clients. These relationships enable us to reduce our selling costs and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements.

Plans for Growth and Acquisitions

Our goal is to continue to build one of the leading independent information technology consulting firms in North America by expanding our relationships with existing and new clients, leveraging our operations to expand and continuing to make disciplined acquisitions. As demand for our services grows, we anticipate increasing the number of professionals in our 19 North American offices and adding new offices throughout the United States, both organically and through acquisitions. We also intend to continue to leverage our existing offshore capabilities to support our growth and provide our clients flexible options for project delivery. In addition, we believe our track record for identifying acquisitions and our ability to integrate acquired businesses help us complete acquisitions efficiently and productively, while continuing to offer quality services to our clients, including new clients resulting from the acquisitions.

Consistent with our strategy of growth through disciplined acquisitions, we consummated nine acquisitions since January 1, 2005, including four in 2007. Given the current economic conditions, the Company has temporarily suspended making additional acquisitions pending improved visibility into the health of the economy.

Results of Operations

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

Revenues:	2008	2007	2006
Services revenues	89.6%	87.8%	85.6%
Software and hardware revenues	4.6	6.5	9.0
Reimbursable expenses	5.8	5.7	5.4
Total revenues	100.0	100.0	100.0

Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	56.6	52.6	52.3
Software and hardware costs	3.7	5.5	7.5
Reimbursable expenses	5.7	5.7	5.4
Other project related expenses	2.2	1.5	1.3
Total cost of revenues	68.2	65.3	66.5
Services gross margin	34.4	38.4	37.4
Software and hardware gross margin	19.4	15.9	16.1
Total gross margin	31.8	34.7	33.5
Selling, general and administrative	20.4	19.2	20.1
Depreciation and intangibles amortization	3.0	2.9	2.7
Impairment of intangibles	0.7	0.0	0.0
Income from operations	7.7	12.6	10.6
Interest income (expense), net	0.2	0.1	(0.3)
Other income (expense), net	(0.4)	0.0	0.1
Income before income taxes	7.5	12.7	10.5
Provision for income taxes	3.2	5.2	4.5
Net income	4.3%	7.5%	6.0%

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenues. Total revenues increased 6% to $231.5 million for the year ended December 31, 2008 from $218.1 million for the year ended December 31, 2007.

	Financial Results (in thousands)			Explanation for Increases/(Decreases) Over Prior Year Period (in thousands)	
	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	Total Increase/ (Decrease) Over Prior Year Period	Increase Attributable to Acquired Companies*	Increase/ (Decrease) Attributable to Base Business**
Services Revenues	$ 207,480	$ 191,395	$ 16,085	$ 29,611	$ (13,526)
Software and Hardware Revenues	10,713	14,243	(3,530)	1,871	(5,401)
Reimbursable Expenses	13,295	12,510	785	1,372	(587)
Total Revenues	$ 231,488	$ 218,148	$ 13,340	$ 32,854	$ (19,514)

*Defined as companies acquired during 2007; no companies were acquired in 2008.
**Defined as businesses owned as of January 1, 2007.

Services revenues increased 8% to $207.5 million for the year ended December 31, 2008 from $191.4 million for the year ended December 31, 2007. Services revenues attributable to our base business decreased $13.5 million while services revenues attributable to the companies acquired in 2007 increased $29.6 million, resulting in a net increase of $16.1 million. We experienced a slowdown in demand during the year related to the deterioration of the U.S. economy.

Software and hardware revenues decreased 25% to $10.7 million in 2008 from $14.2 million in 2007. Software and hardware revenues attributable to our base business decreased $5.4 million while software and hardware revenues attributable to acquired companies increased $1.9 million, resulting in a net decrease of $3.5 million. Reimbursable expenses increased 6% to $13.3 million in 2008 from $12.5 million in 2007 due to acquisitions and an increased number of projects requiring consultant travel. We do not realize any profit on reimbursable expenses.

Cost of revenues. Cost of revenues increased 11% to $158.0 million for the year ended December 31, 2008 from $142.5 million for the year ended December 31, 2007. Cost of revenues attributable to our base business decreased $7.9 million while cost of revenues attributable to the companies acquired in 2007 increased $23.4 million, resulting in a net increase of $15.5 million. The average number of professionals performing services, including subcontractors, increased to 1,165 for the year ended December 31, 2008 from 984 for the year ended December 31, 2007 primarily related to acquisitions and partially offset with head count reductions related to lower demand for services.

Costs associated with software and hardware sales decreased 28% to $8.6 million for year ended December 31, 2008 from $12.0 million for the year ended December 31, 2007 which directly relates to the decline in software and hardware revenues discussed above. Costs associated with software and hardware sales attributable to our base business decreased $4.9 million, while costs associated with software and hardware sales attributable to acquired companies increased $1.5 million, resulting in a net decrease of $3.4 million.

Gross Margin. Gross margin decreased 3% to $73.5 million for the year ended December 31, 2008 from $75.7 million for the year ended December 31, 2007. Gross margin as a percentage of revenues decreased to 31.8% for the year ended December 31, 2008 from 34.7% for the year ended December 31, 2007 due primarily to a decrease in services gross margin offset by an increase in margin from software and hardware. Services gross margin, excluding reimbursable expenses, decreased to 34.4% in 2008 from 38.4% in 2007 primarily as a result of higher labor costs associated with a soft revenue cycle and delays in the start dates of projects. The average utilization rate of our professionals, excluding subcontractors, decreased to 79% for the year ended December 31, 2008 from 81% for the year ended December 31, 2007. Average hourly billing rates decreased to $109 for 2008 from $118 for 2007, primarily due to lower rates associated with the acquisition of the China offshore business and the ePairs business in the second half of 2007. The average hourly bill rate for 2008 excluding China, ePairs, and subcontractors was $116 compared to $119 for 2007. Software and hardware gross margin increased to 19.4% in 2008 from 15.9% in 2007 primarily as a result of increased sales of our higher margin internally developed software.

Selling, General and Administrative. Selling, general and administrative expenses increased 13% to $47.2 million for the year ended December 31, 2008 from $42.0 million for the year ended December 31, 2007 due primarily to fluctuations in expenses as detailed in the following table:

Selling, General, and Administrative Expense	Increase / (Decrease) (in millions)
Stock compensation expense	$ 1.7
Office and technology-related costs	1.5
Salary expense	1.4
Sales related costs	1.0
Bad debt expense	0.8
Customer dispute settlement	0.8
Other	0.6
Bonus expense	(2.6)
Net increase	$ 5.2

Selling, general and administrative expenses as a percentage of revenues increased slightly to 20% for the year ended December 31, 2008 from 19% for the year ended December 31, 2007, primarily driven by an increase in stock compensation expense, office and technology-related costs, and salary expense. Stock compensation expense increased primarily due to additional restricted stock awards granted in 2007 and 2008. Investments in our technology infrastructure and offshore resources, as well as increases in our facility costs, caused our office and technology-related costs to rise in 2008. The increase in salary expense was associated with development of our healthcare and communications industry verticals. These increases were offset by a decrease in bonus costs. Bonus costs decreased as a result of the Company not achieving the projected performance goals.

Depreciation. Depreciation expense increased 38% to $2.1 million during 2008 from $1.6 million during 2007. The increase in depreciation expense is due to both organic and acquisition-related additions of software programs, servers, and other computer equipment to enhance our technology infrastructure. Depreciation expense as a percentage of services revenue, excluding reimbursable expenses, was 1.0% and 0.8% for the years ended December 31, 2008 and 2007, respectively.

Amortization. Amortization increased 2% to $4.8 million for the year ended December 31, 2008 from $4.7 million for the year ended December 31, 2007. The increase in amortization expense reflects the acquisition of intangibles in 2007, as well as the amortization of capitalized costs associated with internal use software. The valuations and estimated useful lives of acquired identifiable intangible assets are outlined in Note 6, Goodwill and Intangible Assets, of our consolidated financial statements.

Impairment of Intangible Assets. During the fourth quarter of 2008, we determined that the continuous trading of our common stock below book value and a loss of a key customer were possible indicators of impairment to goodwill or long-lived assets as defined under Statement of Financial Accounting Standards (“SFAS”) No. 142, Goodwill and Other Intangible Assets (“SFAS 142”), and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (“SFAS 144”), triggering the necessity of impairment tests as of December 31, 2008. As a result of the tests performed, we recorded a $1.6 million impairment primarily related to customer relationships we acquired from e tech solutions, Inc. (“E Tech”). The value of these relationships was affected primarily by the loss of a key customer acquired by E Tech, which caused cash flows from the asset group to be lower than originally projected.

Net Interest Income or Expense. We had interest income, net of interest expense, of $0.5 million for the year ended December 31, 2008 compared to interest income, net of interest expense, of $0.2 million during the year ended

December 31, 2007. The increase in interest income in 2008 resulted from higher cash balances throughout 2008 compared to prior year and the receipt of interest payments in connection with a promissory note entered into with a customer in June 2008.

Other Expense. We expensed $0.9 million of previously capitalized deferred offering costs during the third quarter of 2008. We no longer intend to use the current shelf registration statement associated with these costs for an equity offering. As required, we wrote off the deferred offering costs.

Provision for Income Taxes. We provide for federal, state and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate increased to 42.2% for the year ended December 31, 2008 from 41.3% for the year ended December 31, 2007. The effective income tax rate increased primarily as a result of the decreased tax benefit of certain dispositions of incentive stock options by holders.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Revenues. Total revenues increased 36% to $218.1 million for the year ended December 31, 2007 from $160.9 million for the year ended December 31, 2006.

	Financial Results (in thousands)			Explanation for Increases/(Decreases) Over Prior Year Period (in thousands)	
	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	Total Increase/ (Decrease) Over Prior Year Period	Increase Attributable to Acquired Companies*	Increase/ (Decrease) Attributable to Base Business**
Services Revenues	$ 191,395	$ 137,722	$ 53,673	$ 43,437	$ 10,236
Software and Hardware Revenues	14,243	14,435	(192)	1,570	(1,762)
Reimbursable Expenses	12,510	8,769	3,741	2,578	1,163
Total Revenues	$ 218,148	$ 160,926	$ 57,222	$ 47,585	$ 9,637

*Defined as companies acquired during 2006 and 2007.
**Defined as businesses owned as of January 1, 2006.

Services revenues increased 39% to $191.4 million for the year ended December 31, 2007 from $137.7 million for the year ended December 31, 2006. Base business accounted for 19% of the increase in services revenues for the year ended December 31, 2007 compared to the year ended December 31, 2006. The remaining 81% of the increase is attributable to revenues generated from the companies acquired during 2006 and 2007.

Software revenues decreased 1% to $14.2 million in 2007 from $14.4 million in 2006. Software revenues attributable to our base business decreased $1.8 million while software revenues attributable to acquired companies increased $1.6 million, resulting in a net decrease of $192,000. Reimbursable expenses increased 43% to $12.5 million in 2007 from $8.8 million in 2006 due to acquisitions and an increased number of projects requiring consultant travel. We do not realize any profit on reimbursable expenses.

Cost of revenues. Cost of revenues increased 33% to $142.5 million for the year ended December 31, 2007 from $107.2 million for the year ended December 31, 2006. Base business accounted for 14% of the $35.3 million increase in cost of revenues for the year ended December 31, 2007 compared to the year ended December 31, 2006. The remaining increase in cost of revenues is attributable to the acquired companies. The average number of professionals performing services, including subcontractors, increased to 1,026 for the year ended December 31, 2007 from 686 for the year ended December 31, 2006.

Costs associated with software sales decreased 1% to $12.0 million for year ended December 31, 2007 from $12.1 million for the year ended December 31, 2006 due to an increase in sales of our higher margin internally developed software. Costs associated with software sales attributable to our base business decreased $1.4 million, while costs associated with software sales attributable to acquired companies increased $1.3 million, resulting in a net decrease of $0.1 million.

Gross Margin. Gross margin increased 41% to $75.7 million for the year ended December 31, 2007 from $53.8 million for the year ended December 31, 2006. Gross margin as a percentage of revenues increased to 34.7% for the year ended December 31, 2007 from 33.4% for the year ended December 31, 2006 due primarily to an increase in services gross margin offset by a slight decrease in margin from software. Services gross margin, excluding reimbursable expenses, increased to 38.4% in 2007 from 37.4% in 2006 primarily due to lower bonus as a percent of revenues and lower direct labor cost as a percent of revenues driven by improved billing rates. The average utilization rate of our professionals, excluding subcontractors, decreased slightly to 81% for the year ended December 31, 2007 from 83% for the year ended December 31, 2006. Average hourly billing rates were $118 for 2007 and $115 for 2006. Software gross margin decreased to 15.9% in 2007 from 16.1% in 2006 primarily as a result of fluctuations in vendor and competitive pricing based on market conditions at the time of the sales.

Selling, General and Administrative. Selling, general and administrative expenses increased 30% to $42.0 million for the year ended December 31, 2007 from $32.3 million for the year ended December 31, 2006 due primarily to fluctuations in expenses as detailed in the following table:

Selling, General, and Administrative Expense	Increase / (Decrease) (in millions)
Sales related costs	$ 3.4
Stock compensation expense	2.5
Salary expense	1.9
Bad debt expense	0.8
Office and technology-related costs	1.6
Recruiting and training-related costs	0.8
Other	0.5
Bonus expense	(1.8)
Net increase	$ 9.7

Selling, general and administrative expenses as a percentage of revenues decreased to 19% for the year ended December 31, 2007 from 20% for the year ended December 31, 2006, primarily driven by lower bonus costs as a percent of revenue and the Company leveraging its infrastructure. Bonus costs, as a percentage of service revenues, excluding reimbursable expenses, decreased to 1.6% for the year ended December 31, 2007 compared to 3.5% for the year ended December 31, 2006 due to increasingly challenging growth and profitability targets in 2007. Stock compensation expense, as a percentage of services revenues, excluding reimbursed expenses, increased to 2.4% for the year ended December 31, 2007 compared to 1.6% for the year ended December 31, 2006.

Depreciation. Depreciation expense increased 64% to $1.6 million during 2007 from approximately $0.9 million during 2006. The increase in depreciation expense is due to the addition of software programs, servers, and other computer equipment to enhance our technology infrastructure and support our growth, both organic and acquisition-related. Depreciation expense as a percentage of services revenue, excluding reimbursable expenses, was 0.8% and 0.7% for the years ended December 31, 2007 and 2006, respectively.

Amortization. Amortization increased 36% to $4.7 million for the year ended December 31, 2007 from approximately $3.5 million for the year ended December 31, 2006. The increase in amortization expense reflects the acquisition of intangibles acquired in 2006 and 2007, as well as the amortization of capitalized costs associated with internal use software. The valuations and estimated useful lives of acquired identifiable intangible assets are outlined in Note 6, Goodwill and Intangible Assets, of our consolidated financial statements.

Net Interest Income or Expense. We had interest income, net of interest expense, of $172,000 for the year ended December 31, 2007 compared to interest expense, net of interest income, of $407,000 during the year ended December 31, 2006. We repaid all outstanding debt in May 2007 and incurred no debt or interest expense during the rest of the fiscal year.

Provision for Income Taxes. We provided for federal, state and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate decreased to 41.3% for the year ended December 31, 2007 from 43.2% for the year ended December 31, 2006. The effective income tax rate decreased as a result of the increased tax benefit of certain dispositions of incentive stock options by holders and a decrease in the state income taxes, net of the federal benefit.

Liquidity and Capital Resources

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

	As of December 31, 2008	2007
Cash and cash equivalents	$ 22.9	$ 8.1
Working capital (including cash and cash equivalents)	$ 56.2	$ 41.5
Amounts available under credit facilities	$ 49.9	$ 49.8

Net Cash Provided By Operating Activities

Net cash provided by operations for the year ended December 31, 2008 was $26.8 million compared to $23.1 million for the year ended December 31, 2007. For the year ended December 31, 2008, net cash provided by operations consisted of net income of $10.0 million plus non-cash charges such as stock compensation, amortization, depreciation, and impairment of intangible assets, of $15.8 million plus net working capital reductions of $1.0 million. The primary components of operating cash flows for the year ended December 31, 2007 are net income of $16.2 million plus non-cash charges of $12.0 million which were offset by investments in working capital of $5.1 million. The Company's days sales outstanding as of December 31, 2008 decreased to 71 days from 73 days at December 31, 2007.

Net Cash Used in Investing Activities

For the year ended December 31, 2008, we used approximately $0.8 million in cash to pay certain acquisition-related costs and $1.5 million in cash to purchase equipment and develop certain software. For the year ended December 31, 2007, we used approximately $26.8 million in cash, net of cash acquired, to acquire E Tech, Tier1, BoldTech, and ePairs. In addition, we used approximately $2.2 million during 2007 to purchase equipment and develop certain software.

Net Cash Provided By Financing Activities

During the year ended December 31, 2008, we made no borrowings under our line of credit; however, we made payments of $0.4 million in fees related to our new credit facility and we incurred $0.9 million in income tax expense due to the decline in the Company's share price of underlying stock awards that were exercised or vested. We used $9.2 million to repurchase shares of the Company's common stock through the stock repurchase program which was partially offset by $0.9 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan. During the year ended December 31, 2007, we made payments of $1.3 million on our long-term debt. Also, we received $3.9 million from proceeds from exercises of stock options and sales under our Employee Stock Purchase Plan and we realized tax benefits related to stock option exercises and restricted stock vesting of $6.9 million.

Availability of Funds from Bank Line of Credit Facilities

On May 30, 2008, the Company entered into a Credit Agreement (the "Credit Agreement") with Silicon Valley Bank ("SVB") and KeyBank National Association ("KeyBank"). The Agreement replaces the Company's Amended and Restated Loan and Security Agreement dated as of September 3, 2005 and further amended on September 29, 2006. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of $50 million, subject to a commitment increase of $25 million. The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to $500,000 at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. The credit facility will be used for ongoing, general corporate purposes.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 30, 2012. Borrowings under the credit facility bear interest at the Company's option at SVB's prime rate (4.00% on December 31, 2008) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.44% on December 31, 2008) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the amount of outstanding borrowings. As of December 31, 2008, the Company had $49.9 million of available borrowing capacity. The Company will incur an annual commitment fee of 0.30% on the unused portion of the line of credit.

As of December 31, 2008, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months. Substantially all of our assets are pledged to secure the credit facility.

Stock Repurchase Program

In 2008, the Company's Board of Directors authorized the repurchase of up to $20.0 million of the Company's common stock. As of December 31, 2008, $9.2 million of Company common stock has been repurchased under this program and $10.8 million of Company common stock may yet be purchased under such authorization.

The Company has established a written trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Exchange Act"), under which it will make a portion of its Company stock repurchases. Additional repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions in compliance with Rule 10b-18 of the Exchange Act, subject to market conditions, applicable legal requirements and other factors. The program expires on June 30, 2010.

Lease Obligations

There were no material changes outside the ordinary course of our business in lease obligations or other contractual obligations in 2008.

Shelf Registration Statement

In July 2008, we filed a shelf registration statement with the SEC to allow for offers and sales of our common stock from time to time. Approximately four million shares of common stock may be sold under this registration statement if we choose to do so. We determined that we currently have no intent to use the shelf registration to complete an offering.

Contractual Obligations

We currently have one letter of credit for $100,000 outstanding that serves as collateral to secure a facility lease. The letter of credit reduces the borrowings available under our line of credit.

We have incurred commitments to make future payments under contracts such as leases. Maturities under these contracts are set forth in the following table as of December 31, 2008 (in thousands):

	Payments Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Operating lease obligations	$ 7,673	$ 2,258	$ 3,884	$ 1,216	$ 315
Total	$ 7,673	$ 2,258	$ 3,884	$ 1,216	$ 315

See Note 9, Income Taxes, in Notes to Consolidated Financial Statements for information related to the Company's obligations for taxes.

Conclusion

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

We believe that the current available funds, access to capital from our credit facility, and cash flows generated from operations will be sufficient to meet our working capital requirements and other capital needs for the next twelve months.

Critical Accounting Policies

The Company's accounting policies are described in Note 2, Summary of Significant Accounting Policies, in Notes to Consolidated Financial Statements. The Company believes its most critical accounting policies include revenue recognition, accounting for goodwill and intangible assets, purchase accounting, accounting for stock-based compensation, and income taxes.

Revenue Recognition and Allowance for Doubtful Accounts

Revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, revenues are recognized and billed by multiplying the number of hours expended in the performance of the contract by the established billing rates. For fixed fee projects, revenues are generally recognized using the input method based on the ratio of hours expended to total estimated hours. Amounts invoiced to clients in excess of revenues recognized are classified as deferred revenues. On many projects the Company is also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenues. Revenues from software and hardware sales are generally recorded on a gross basis based on the Company's role as principal in the transaction. On rare occasions, the Company enters into a transaction where it is not the principal. In these cases, revenue is recorded on a net basis.

Revenues are recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) delivery and acceptance have occurred, and (4) collectibility is deemed probable. The Company's policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same counterparty is in accordance with American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-2, Software Revenue Recognition, Emerging Issues Task Force ("EITF") Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, and SEC Staff Accounting Bulletin No. 104, Revenue Recognition. Specifically, if the Company enters into contracts for the sale of services and software or hardware, then the Company evaluates whether the services are essential to the functionality of the software or hardware and whether it has objective fair value evidence for each deliverable in the transaction. If the Company has concluded that the services to be provided are not essential to the functionality of the software or hardware and it can determine objective fair value evidence for each deliverable of the transaction, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of the Company's multiple element arrangements meet these criteria. The Company may provide multiple services under the terms of an arrangement and are required to assess whether one or more units of accounting are present. Fees are typically accounted for as one unit of accounting as fair value evidence for individual tasks or milestones is not available. The Company follows the guidelines discussed above in determining revenues; however, certain judgments and estimates are made and used to determine revenues recognized in any accounting period. If estimates are revised, material differences may result in the amount and timing of revenues recognized for a given period.

Revenues are presented net of taxes assessed by governmental authorities. Sales taxes are generally collected and subsequently remitted on all software and hardware sales and certain services transactions as appropriate.

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

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

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. In accordance with SFAS 142, the Company performs an annual impairment test of goodwill. The Company evaluates goodwill as of October 1 each year and more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by SFAS 142, the impairment test is accomplished using a two-step approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. The Company also reviews other factors to determine the likelihood of impairment.

The Company's fair value was determined by weighting the results of two valuation methods: 1) market capitalization based on the average price of the Company's common stock, including a control premium, for a reasonable period of time prior to the evaluation date (generally 15 to 30 days) and 2) a discounted cash flow model. The fair value calculated using the Company's average common stock price (including a control premium) was weighted 40% while the value calculated by the discounted cash flow model was weighted 60% in the Company's determination of its overall fair value. Management believes that while the use of its average common stock price, plus a control premium, may be considered the best evidence of fair value in SFAS 142, the declines in the Company's stock price, and in the market overall, are not consistently aligned with the Company's financial results or outlook. The discounted cash flow approach allows the Company to calculate its fair value based on operating performance and meaningful financial metrics.

A key assumption used in the calculation of the Company's fair value using its average common stock price was the consideration of a control premium. The Company reviewed industry premium data and determined an appropriate control premium for its analysis based on the low end of any premium received in transactions over the past several years.

Significant estimates used in the discounted cash flow model included projections of revenue growth, net income margins, discount rate, and terminal business value. The forecasts of revenue growth and net income margins are based upon management's long-term view of the business and are used by senior management and the Board of Directors to evaluate operating performance. The discount rate utilized was estimated using the weighted average cost of capital for the Company's industry. The terminal business value was determined by applying a growth factor to the latest year for which a forecast exists.

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

The Company's annual goodwill impairment test was performed as of October 1, 2008. The Company's fair value as of the annual testing date exceeded its book value and consequently, no impairment was indicated.

During the fourth quarter of 2008, the Company determined that the continuous trading of its common stock below book value was a possible indicator of impairment to goodwill or long-lived assets as defined under SFAS 142 and SFAS 144, triggering the necessity of impairment tests as of December 31, 2008. In accordance with SFAS 142, the Company tested its long-lived assets for impairment prior to performing an interim test of goodwill impairment. Assets were grouped together to test recoverability based on the lowest level of identifiable cash flows directly attributable to those assets. Fair values of the identified asset groups were calculated using a discounted cash flow model. Key assumptions used in the discounted cash flow model for calculating the fair value of the asset groups were similar in nature to those described above. Based on the valuations performed, the Company determined that the cash flows of one of the identified asset groups would not be sufficient to recover the group's carrying amount. Consequently, we recorded an impairment of $1.6 million primarily related to customer relationship intangible assets acquired from E Tech. The value of these relationships was affected primarily by the loss of a key customer acquired by E Tech, which caused cash flows from the acquired relationships to be lower than originally projected.

After recording the impairment of the E Tech customer relationships intangible asset, the Company performed the first step of the goodwill impairment test and based on the weighted average of market capitalization, including a control premium, and discounted cash flow analysis, goodwill was not impaired as of December 31, 2008. Changes in management intentions, market conditions, our stock value, operating performance, and other similar circumstances could affect the assumptions used in the future for the impairment tests described above. Changes in the assumptions could result in future impairment charges that could be material to our financial results in any given period.

Subsequent to December 31, 2008 our stock price has declined. Accordingly, the Company will continue to evaluate the carrying value of the remaining goodwill and intangible assets to determine whether the decline in stock price is an indication that there is a triggering event that may require the Company to perform an interim impairment test and record impairment charges to earnings, which could adversely affect the Company's financial results.

Purchase Accounting

We allocate the purchase price of our acquisitions to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such fair market value assessments require significant judgments and estimates that can change materially as additional information becomes available. The purchase price is allocated to intangibles based on management's estimate and an independent valuation. Management finalizes the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved.

Accounting for Stock-Based Compensation

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

Income Taxes

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

Recent Accounting Pronouncements

Effective January 1, 2008, the Company adopted SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of SFAS No. 115 ("SFAS 159"). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements ("SFAS 157"). In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 ("FSP 157-2"), which delayed the effective date of SFAS 157 for certain nonfinancial assets and liabilities, including fair value measurements under SFAS No. 141, Business Combinations ("SFAS 141") and SFAS 142, to fiscal years beginning after November 15, 2008. Therefore, the Company has adopted the provisions of SFAS 157 with respect to its financial assets and liabilities only. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Fair value is defined under SFAS 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on the following three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2008, the Company did not hold any assets or liabilities that are required to be measured at fair value on a recurring basis, and therefore the adoption of the respective provisions of SFAS 157 did not have an impact on the Company's consolidated financial statements. On January 1, 2009, the Company will implement the previously deferred provisions of SFAS 157 for nonfinancial assets and liabilities recorded at fair value, as required. Management does not believe that the remaining provisions will have a material effect on the Company's consolidated financial statements when they become effective.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles ("SFAS 162"). The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in accordance with generally accepted accounting principles. Unlike Statement on Auditing Standards ("SAS") No. 69, The Meaning of Present Fairly in Conformity With GAAP, SFAS 162 is directed to the entity rather than the auditor. The statement was effective November 15, 2008, after approval by the SEC which occurred in September 2008. The application of this statement did not have a material impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determination of the Useful Life of Intangible Assets ("FSP 142-3"). FSP 142-3 requires companies estimating the useful life of a recognized intangible asset to consider their historical experience in renewing or extending similar arrangements or, in the absence of historical experience, to consider assumptions that market participants would use about renewal or extension as adjusted for

SFAS 142's entity-specific factors. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Adoption of this statement is not expected to have a material impact on the Company's consolidated financial statements when it becomes effective.

In December 2007, FASB issued SFAS No. 141 (revised 2007), Business Combinations ("SFAS 141R"), which is a revision of SFAS 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The revised statement will require, among other things, that transaction costs be expensed instead of recognized as purchase price. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009.

Off-Balance Sheet Arrangements

The Company currently has no off-balance sheet arrangements, except operating lease commitments as disclosed in Note 10, Commitments and Contingencies.

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

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

Exchange Rate Sensitivity

During the year ended December 31, 2008, $2.5 million and $2.7 million of our total revenues were attributable to our Canadian operations and revenues generated in Europe, respectively. Our exposure to changes in foreign currency rates primarily arises from short-term intercompany transactions with our Canadian, Chinese, and Indian subsidiaries and from client receivables denominated in other than our functional currency. Our foreign subsidiaries incur a significant portion of their expenses in their applicable currency as well, which helps minimize our risk of exchange rate fluctuations. Based on the amount of revenues attributed to clients in Canada and Europe during the year ended December 31, 2008, this exchange rate risk will not have a material impact on our financial position or results of operations.

Interest Rate Sensitivity

We had unrestricted cash and cash equivalents totaling $22.9 million and $8.1 million at December 31, 2008 and December 31, 2007, respectively. These amounts were invested primarily in money market funds. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income.

Item 8. Financial Statements and Supplementary Data.

PERFICIENT, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2007

	December 31, 2008	December 31, 2007
	(In thousands, except share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,909	$ 8,070
Accounts and note receivable, net of allowance for doubtful accounts of $1,497 in 2008 and $1,475 in 2007	47,584	50,855
Prepaid expenses	1,374	1,182
Other current assets	3,157	4,142
Total current assets	75,024	64,249
Property and equipment, net	2,345	3,226
Goodwill	104,178	103,686
Intangible assets, net	11,456	17,653
Other non-current assets	1,244	1,178
Total assets	$ 194,247	$ 189,992
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,509	$ 4,160
Other current liabilities	14,339	18,550
Total current liabilities	18,848	22,710
Deferred income taxes	--	1,549
Other non-current liabilities	581	171
Total liabilities	$ 19,429	$ 24,430
Commitments and contingencies (see Notes 4 and 10)		
Stockholders' equity:		
Common stock ($0.001 par value per share; 50,000,000 shares authorized and 30,350,700 shares issued and 28,502,400 shares outstanding as of December 31, 2008; 29,423,296 shares issued and outstanding as of December 31, 2007)	$ 30	$ 29
Additional paid-in capital	197,653	188,998
Accumulated other comprehensive loss	(338)	(117)
Treasury stock, at cost (1,848,300 shares as of December 31, 2008)	(9,179)	--
Accumulated deficit	(13,348)	(23,348)
Total stockholders' equity	174,818	165,562
Total liabilities and stockholders' equity	$ 194,247	$ 189,992

See accompanying notes to consolidated financial statements.

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PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	Year Ended December 31, 2008	2007	2006
	(In thousands, except per share information)		
Revenues:			
Services	$ 207,480	$ 191,395	$ 137,722
Software and hardware	10,713	14,243	14,435
Reimbursable expenses	13,295	12,510	8,769
Total revenues	231,488	218,148	160,926
Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	131,019	114,692	84,161
Software and hardware costs	8,639	11,982	12,118
Reimbursable expenses	13,295	12,510	8,769
Other project related expenses	5,033	3,274	2,122
Total cost of revenues	157,986	142,458	107,170
Gross margin	73,502	75,690	53,756
Selling, general and administrative	47,242	41,963	32,268
Depreciation	2,139	1,553	948
Amortization	4,810	4,712	3,458
Impairment of intangible assets	1,633	--	--
Income from operations	17,678	27,462	17,082
Interest income	555	239	102
Interest expense	(27)	(67)	(509)
Other income (expense)	(915)	20	174
Income before income taxes	17,291	27,654	16,849
Provision for income taxes	7,291	11,424	7,282
Net income	$ 10,000	$ 16,230	$ 9,567
Basic net income per share	$ 0.34	$ 0.58	$ 0.38
Diluted net income per share	$ 0.33	$ 0.54	$ 0.35
Shares used in computing basic net income per share	29,412,329	27,998,093	25,033,337
Shares used in computing diluted net income per share	30,350,616	30,121,962	27,587,449

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2005	23,295	$ 23	$ 115,120	$ (87)	$ --	$ (49,145)	$ 65,911
Bay Street, Insolexen, and EGG acquisition purchase accounting adjustments	1,499	2	17,989	--	--	--	17,991
Warrants exercised	145	--	146	--	--	--	146
Stock options exercised	1,672	2	4,001	--	--	--	4,003
Purchases of stock under the Employee Stock Purchase Plan	6	--	86	--	--	--	86
Tax benefit of stock option exercises and restricted stock vesting	--	--	6,554	--	--	--	6,554
Stock compensation	83	--	3,132	--	--	--	3,132
Foreign currency translation adjustment	--	--	--	(38)	--	--	(38)
Net income	--	--	--	--	--	9,567	9,567
Total comprehensive income	--	--	--	--	--	--	9,529
Balance at December 31, 2006	26,700	$ 27	$ 147,028	$ (125)	$ --	$ (39,578)	$ 107,352
E Tech, Tier1, BoldTech, and ePairs acquisition purchase accounting adjustments	1,250	1	24,975	--	--	--	24,976
Stock options exercised	1,160	1	3,696	--	--	--	3,697
Purchases of stock under the Employee Stock Purchase Plan	11	--	206	--	--	--	206
Tax benefit of stock option exercises and restricted stock vesting	--	--	6,889	--	--	--	6,889

Stock compensation	302	--	6,204	--	--	--	6,204
Foreign currency translation adjustment	--	--	--	8	--	--	8
Net income	--	--	--	--	--	16,230	16,230
Total comprehensive income	--	--	--	--	--		16,238
Balance at December 31, 2007	29,423	$ 29	$ 188,998	$ (117)	$ --	$ (23,348)	$ 165,562
E Tech and ePairs acquisition purchase accounting adjustments	(19)	--	(290)	--	--	--	(290)
Stock options exercised	338	1	726	--	--	--	727
Purchases of stock under the Employee Stock Purchase Plan	29	--	196	--	--	--	196
Tax expense of stock option exercises and restricted stock vesting	--	--	(922)	--	--	--	(922)
Stock compensation and retirement savings plan contributions	579	--	8,945	--	--	--	8,945
Purchases of treasury stock	(1,848)	--	--	--	(9,179)	--	(9,179)
Foreign currency translation adjustment	--	--	--	(221)	--	--	(221)
Net income	--	--	--	--	--	10,000	10,000
Total comprehensive income	--	--	--	--	--		9,779
Balance at December 31, 2008	28,502	$ 30	$ 197,653	$ (338)	$ (9,179)	$ (13,348)	$ 174,818

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	Year Ended December 31,		
	2008	2007	2006
OPERATING ACTIVITIES			