

PERFICIENT INC
Form 10-K
March 06, 2014
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

- Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended
December 31, 2013
 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.)

520 Maryville Centre Drive, Suite 400
Saint Louis, Missouri 63141
(Address of principal executive offices)

(314) 529-3600
(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 No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$421,152,097 based on the last reported sale price of the Company's common stock on The Nasdaq Global Select Market on June 28, 2013.

As of March 3, 2014, there were 33,957,812 shares of common stock outstanding.

Portions of the definitive proxy statement in connection with the 2014 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than April 30, 2014, are incorporated by reference in Part III of this Form 10-K.

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PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Annual Report on Form 10-K that are not purely historical statements discuss future expectations, contain projections of results of operations or financial condition, or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The "forward-looking" information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions and are subject to risks and uncertainties. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements include (but are not limited to) the following:

- (1) the impact of the general economy and economic uncertainty on our business;
- (2) risks associated with the operation of our business generally, including:
 - a. client demand for our services and solutions;
 - b. maintaining a balance of our supply of skills and resources with client demand;
 - c. effectively competing in a highly competitive market;
 - d. protecting our clients' and our data and information;
 - e. risks from international operations;
 - f. obtaining favorable pricing to reflect services provided;
 - g. adapting to changes in technologies and offerings; and
 - h. risk of loss of one or more significant software vendors;
- (3) legal liabilities, including intellectual property protection and infringement or personally identifiable information;
- (4) risks associated with managing growth organically and through acquisitions; and
- (5) the risk factors detailed from time to time with our filings with the Securities and Exchange Commission (the "SEC").

This discussion is not exhaustive, but is designed to highlight important factors that may impact our forward-looking statements. Because the factors referred to above, as well as the statements included under the heading "Risk Factors" and elsewhere in this Annual Report on Form 10-K, including documents incorporated by reference herein, could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement made by us or on our behalf, you should not place undue reliance on any forward-looking statements.

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 on Form 10-K 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 that are attributable to Perficient, Inc. ("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 1. Business.

Overview

We are an information technology consulting firm serving Forbes Global 2000 and other large enterprise companies with a primary focus in the United States. We help our clients gain competitive advantage by using 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 business integration, custom applications, portals and collaboration, enterprise content management, enterprise performance management, business intelligence, technology platform implementations, customer relationship management, and commerce, among others. 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 our clients, we believe we have acquired domain expertise that differentiates our firm. We use project teams that 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 reducing the time and risk associated with designing and implementing technology solutions.

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We serve our clients from locations in multiple markets throughout North America by leveraging a sales team that is experienced and connected through a common service portfolio, sales process, and performance management system. Our sales process utilizes project pursuit teams that include those of our information technology colleagues best suited to address a particular prospective client's needs. 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 \$10 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 boutique consulting firms.

During 2013, we continued to implement a strategy focused on: expanding our relationships with existing and new clients; continuing to make disciplined acquisitions by acquiring TriTek Solutions, Inc. ("TriTek") and Clear Task, Inc. ("Clear Task") in May, and CoreMatrix Systems, LLC ("CoreMatrix") in October; expanding our technical skill and geographic base by expanding our business both organically and through acquisitions; expanding our brand visibility among prospective clients, employees, and software vendors; leveraging our offshore capabilities in China and India; and leveraging our existing, and pursuing new, strategic alliances by targeting leading business advisory companies and technology providers. Approximately 99% of our revenues were derived from clients in the United States during 2013, 2012, and 2011, with the remainder derived from clients outside of the United States. Approximately 97% of our total assets were located in the United States as of December, 2013, 2012, and 2011 with the remainder located in Canada, China, and India.

We have been able to extend or enhance our presence in certain markets through acquisitions, as well as expand or enhance the services and solutions we are able to provide our clients. Through these acquisitions in 2013, we entered or expanded our presence in the San Francisco, New York City, Boston, and Washington D.C. markets and are now able to provide additional services and solutions utilizing Salesforce technologies and IBM enterprise content management and business process management solutions.

We provide services primarily to the healthcare (health and public services), financial services (including banking and insurance), retail, manufacturing, energy and utilities, automotive and transport products, consumer goods and services, telecommunications, electronics and high tech, and business services industries and markets, among others.

Our Solutions

We help clients gain competitive advantage by using technology to make their businesses more responsive to market opportunities; 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:

Business integration and service oriented architectures ("SOA"). We design, develop, and implement business integration and SOA 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, 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.

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. Our substantial experience with platforms including J2EE, .Net, and Open-source enables enterprises of all types to leverage cutting-edge technologies to meet business-driven needs.

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Enterprise portals and collaboration. We design, develop, implement, and integrate secure and scalable enterprise portals and collaboration solutions 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, content management, social media/networking tools, and personalization.

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, customer relationship management, or legacy applications. Our 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.

Enterprise performance management ("EPM"). We design, develop, and implement EPM 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 information technology infrastructures.

Business intelligence. We design, develop, and implement business intelligence solutions that allow companies to interpret and act upon accurate, timely, and integrated information. Business intelligence solutions help our clients make more informed business decisions by classifying, aggregating, and correlating data into meaningful business information. 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.

Technology platform implementations. We design, develop, and implement technology platform solutions 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.

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

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.

We have developed a wide array of intellectual property assets – applications, utilities and products that enable our clients to speed time to delivery and reduce total cost of ownership. These foundational tools include configurable Solution Accelerators and Industry Tools that can be customized to solve specific enterprise challenges. Our Industry Tools enable enterprises to address industry-specific business process and workflow challenges. We offer tools for the healthcare, energy and utilities, financial services and retail industries. Our Solution Accelerators increase the velocity of solution development across key horizontal disciplines including business integration, content management, business process management, enterprise search and tax compliance. Our strong network of partnerships and cross-platform capabilities enable us to develop and deliver accelerators across a wide spectrum of solution areas and vendor platforms.

In addition to our technology solution services and intellectual property assets, we offer education and mentoring services to our clients. We conduct IBM- and Oracle-certified training, where we provide our clients both a customized and established curriculum of courses and other education services.

Competitive Strengths

We believe our competitive strengths include:

Domain Expertise. We have acquired significant domain expertise in a core set of technology solutions and software platforms. These solutions include business integration, portals and collaboration, custom applications, technology platform implementations, customer relationship management, enterprise performance management, enterprise content management, and business intelligence, among others. The platforms in which we have significant domain expertise and on which these solutions are built include IBM, Microsoft, Oracle and salesforce.com, among others.

Industry Expertise. We serve many of the world's largest and most respected companies with deep business process experience across a variety of industries. These industries include healthcare, financial services and banking, consumer products and retail, telecommunications, automotive, and energy, 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 methodology includes a proven execution process map we developed, which allows for repeatable, high quality services delivery. The 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. For the years ending December 31, 2013, 2012 and 2011, 86%, 84%, and 81%, respectively, of services revenues were derived from clients who continued to utilize our services from the prior year, excluding 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 an IBM Premier Business Partner, a Microsoft National Systems Integrator and Gold Certified Partner, an Oracle Platinum Partner, a Gold salesforce.com Cloud Alliance Partner, a Team TIBCO Partner, and an EMC Select Services Team Partner. In 2013, we received multiple awards and recognition from our partners, including:

- IBM Enterprise Content Management Business Partner Excellence Award;
- IBM Worldwide Performance Management Business Partner Excellence Award;
- Microsoft U.S. Partner of the Year;
- Microsoft Healthcare Provider Partner of the Year;
- Microsoft Central Region Enterprise Cloud Partner of the Year;
- Microsoft East Region NSI Partner of the Year;
- Microsoft Northeast Area Cloud Partner of the Year;
- Google North America Deployment Partner of the Year; and
- EMC Partner Innovation and Customer Satisfaction Award.

Offshore Capability. We serve our clients from locations in multiple markets throughout North America and, in addition, we operate global development centers in Hangzhou, China and Chennai, India. These facilities are staffed with colleagues who have specializations that include application development, adapter and interface development, quality assurance and testing, monitoring and support, product development, platform migration, and portal development with expertise in IBM, Microsoft and Oracle technologies. In addition to our offshore capabilities, we employ a number of foreign nationals in the United States on H1-B visas. The facility in Chennai, India is also a recruiting and development facility used to continue to grow our base of H1-B foreign national colleagues. As of December 31, 2013, we had 189 colleagues at the Hangzhou, China facility, 75 colleagues at the Chennai, India facility, and 240 colleagues with H1-B visas. We intend to continue to leverage our existing offshore capabilities to support our growth and provide our clients flexible options for project delivery.

Competition

The market for the 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;
- boutique consulting firms, such as Prolifics and Avanade;
- national consulting firms, such as Accenture, Deloitte Consulting, Cognizant, and Sapient;
- in-house professional services organizations of software companies; and
- 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, growing partner network with leading technology companies, 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.

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Employees

As of December 31, 2013, we had 1,874 colleagues, 1,573 of which were billable (excluding 167 billable subcontractors) and 301 which were involved in sales, administration, and marketing. None of our colleagues are represented by a collective bargaining agreement, and we have never experienced a strike or similar work stoppage. We are committed to the continued development of our colleagues.

Sales and Marketing. As of December 31, 2013, we had a 75-person direct solutions-oriented sales force. 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 relationships in different areas of the business and with our clients' business partners. Approximately 84% of our sales are executed by our direct sales force. In addition to our direct sales team, we also have 40 dedicated sales support employees, 27 general managers and nine vice-presidents who are engaged in the sales and marketing efforts.

We have sales and marketing partnerships with software vendors including IBM, Microsoft, Oracle and salesforce.com, among others. These companies are key vendors of open standards-based software commonly referred to as middleware application servers, enterprise application integration platforms, business process management, cloud computing applications, 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.

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, and the Internet. After initially identifying qualified candidates, we conduct an extensive screening and interview process.

Retention. We believe that our 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 makes us an attractive career choice for experienced professionals. Because our strategic partners are established and emerging market leaders, our technology colleagues have an opportunity to work with cutting-edge information technology. We foster professional development by training our technology colleagues in the skills critical to successful consulting engagements such as implementation methodology and project management. We believe in promoting from within whenever possible and our current acquisition strategy allows our employees to continue to grow and develop in these emerging markets horizontally and vertically. 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 colleagues with assessing their skills and developing a detailed action plan for guiding their career development.

Training. To ensure continued development of our technical staff, we place a priority on training. We offer extensive training for our colleagues around industry-leading technologies. We utilize our education practice to provide continuing education and professional development opportunities for our colleagues.

Compensation. Our employees have a compensation model that includes 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 are eligible to receive restricted stock awards,

which generally vest ratably over a minimum three-year period.

Company Wide Practice ("CWP") Leaders. Our CWP leadership performs a critical role in maintaining our technology leadership. Consisting of key employees from several practice areas, the CWP leadership assesses new technologies, partnership opportunities, and serves as lead internal subject matter experts for their respective domain. The CWP leaders also coordinate thought leadership activities, including white paper authorship and publication and speaking engagements by our colleagues. Finally, the CWP team identifies services opportunities between and among our strategic partners' products, oversees our quality assurance programs, and assists in acquisition-related technology due diligence.

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, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained or incorporated in our website is not part of this document.

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Item 1A. Risk Factors.

You should carefully consider the following factors together with the other information contained in or incorporated by reference into this Annual Report on Form 10-K before you decide to buy our common stock. These factors could materially adversely affect our business, financial condition, operating results, cash flows, or stock price. Our business is also subject to general risks and uncertainties that may broadly affect companies, including us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also could materially adversely affect our business, financial condition, operating results, cash flows, or stock price.

Our results of operations could be adversely affected by volatile, negative or uncertain economic conditions and the effects of these conditions on our clients' businesses and levels of business activity.

Global macroeconomic conditions affect our clients' businesses and the markets they serve. Developments, such as the recent recessions and instability in the United States and Europe, deteriorations in the Chinese economy, and the inflationary risks associated with higher commodity prices, among other developments, may have an adverse effect on our client's business and, consequently, on our revenue growth and profitability.

Volatile, negative or uncertain economic conditions in the markets we serve have undermined and could in the future undermine business confidence and cause our clients to reduce or defer their spending on new technologies or initiatives or terminate existing contracts, which would negatively affect our business. Growth in markets we serve could be at a slow rate, or could stagnate, in each case, for an extended period of time. Differing economic conditions and patterns of economic growth and contraction in the geographical regions in which we operate and the industries we serve have affected and may in the future affect demand for our services. A material portion of our revenues and profitability is derived from our clients in North America. Weakening demand in this market could have a material adverse effect on our results of operations. Ongoing economic volatility and uncertainty affects our business in a number of other ways, including making it more difficult to accurately forecast client demand beyond the short term and effectively build our revenue and resource plans, particularly in consulting. This could result, for example, in us not having the level of appropriate personnel where they are needed or having to use involuntary terminations as means to keep our supply of skills and resources in balance.

Economic volatility and uncertainty is particularly challenging because it may take some time for the effects and resulting changes in demand patterns to manifest themselves in our business and results of operations. Changing demand patterns from economic volatility and uncertainty could have a significant negative impact on our results of operations.

Our business depends on generating and maintaining ongoing, profitable client demand for our services and solutions, and a significant reduction in such demand could materially affect our results of operations.

Our revenue and profitability depend on the demand for our services and favorable margins, which could be negatively affected by numerous factors, many of which are beyond our control and unrelated to our work product. As described above, volatile, negative or uncertain global economic conditions have adversely affected and could in the future adversely affect client demand for our services and solutions. In addition, developments in the industries we serve, which may be rapid, could shift demand to services and solutions where we are less competitive, or might require significant investment by us to upgrade, enhance or expand our services and solutions to meet that demand. Companies in the industries we serve sometimes seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If one of our current clients merges or consolidates with a company that relies on another provider for its consulting, systems integration and technology, or outsourcing services, we may lose work from that client or lose the opportunity to gain additional work if we are not successful in generating new opportunities from the merger or consolidation. Many of our consulting contracts are less than 12 months in duration, and these contracts typically permit a client to terminate the agreement with as little as 10 days' notice. If a client is dissatisfied with our services and we are unable to effectively respond to its needs, the client might terminate existing

contracts, or reduce or eliminate spending on the services and solutions we provide. Additionally, a client could choose not to retain us for additional stages of a project, try to renegotiate the terms of its contract or cancel or delay additional planned work. When contracts are terminated or not renewed, we lose the anticipated revenues, and it may take significant time to replace the level of revenues lost. Consequently, our results of operations in subsequent periods could be materially lower than expected. The specific business or financial condition of a client, changes in management and changes in a client's strategy also are all factors that can result in terminations, cancellations or delays. It could also result in pressure to reduce the cost of our services.

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If we are unable to keep our supply of skills and resources in balance with client demand and attract and retain professionals with strong leadership skills, our business, the utilization rate of our professionals and our results of operations may be materially adversely affected.

Our success depends, in large part, upon our ability to keep our supply of skills and resources in balance with client demand and our ability to attract and retain personnel with the knowledge and skills to lead our business. Experienced personnel in our industry are in high demand, and there is much competition to attract qualified personnel. We must hire, retain and motivate appropriate numbers of talented people with diverse skills in order to serve clients across North America, respond quickly to rapid and ongoing technology, industry and macroeconomic developments and grow and manage our business. For example, if we are unable to hire or continually train our employees to keep pace with the rapid and continuing changes in technology and the industries we serve or changes in the types of services clients are demanding we may not be able to develop and deliver new services and solutions to fulfill client demand. As we expand our services and solutions, we must also hire and retain an increasing number of professionals with different skills and professional expectations than those of the professionals we have historically hired and retained. Additionally, if we are unable to successfully integrate, motivate and retain these professionals, our ability to continue to secure work in those industries and for our services and solutions may suffer.

We are dependent on retaining our senior executives and other experienced managers, and if we are unable to do so, our ability to develop new business and effectively lead our current projects could be jeopardized. We depend on identifying, developing, and retaining key employees to provide leadership and direction for our businesses. This includes developing talent and leadership capabilities in emerging markets, where the depth of skilled employees is often limited and competition for these resources is great. Our geographic expansion strategy in emerging markets depends on our ability to attract, retain and integrate both local business leaders and people with the appropriate skills.

Similarly, our profitability depends on our ability to effectively utilize personnel with the right mix of skills and experience to perform services for our clients, including our ability to transition employees to new assignments on a timely basis. If we are unable to effectively deploy our employees on a timely basis to fulfill the needs of our clients, our ability to perform our work profitably could suffer. If the utilization rate of our professionals is too high, it could have an adverse effect on employee engagement and attrition, the quality of the work performed and our ability to staff projects. If our utilization rate is too low, our profitability and the engagement of our employees could suffer. The costs associated with recruiting and training employees are significant. An important element of our global business model is the deployment of our employees around the world, which allows us to move talent as needed. Therefore, if we are not able to deploy the talent we need because of increased regulation of immigration or work visas, including limitations placed on the number of visas granted, limitations on the type of work performed or location in which it can be performed, and new or higher minimum salary requirements, it could be more difficult to staff our employees on client engagements and could increase our costs.

Our equity-based incentive compensation plans are designed to reward high-performing personnel for their contributions and provide incentives for them to remain with us. If the anticipated value of such incentives does not materialize because of volatility or lack of positive performance in our stock price, or if our total compensation package is not viewed as being competitive, our ability to attract and retain the personnel we need could be adversely affected. In addition, if we do not obtain the shareholder approval needed to continue granting equity awards under our share plans in the amounts we believe are necessary, our ability to attract and retain personnel could be negatively affected.

There is a risk that at certain points in time and in certain geographical regions, we will find it difficult to hire and retain a sufficient number of employees with the skills or backgrounds to meet current and/or future demand. In these cases, we might need to redeploy existing personnel or increase our reliance on subcontractors to fill certain labor needs, and if not done effectively, our profitability could be negatively impacted. Additionally, if demand for our services were to escalate at a high rate, we may need to adjust our compensation practices, which could put upward

pressure on our costs and adversely affect our profitability if we are unable to recover these increased costs. At certain times, however, we may also have more personnel than we need in certain skill sets or geographies. In these situations, we must evaluate voluntary attrition and use reduced levels of new hiring and increased involuntary terminations as means to keep our supply of skills and resources in balance with client demand in those geographies.

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The market for the information technology consulting services in which we operate is highly competitive, and we might not be able to compete effectively.

The market for the information technology consulting services we provide is competitive, rapidly evolving, and subject to rapid technological change. Our competitors include: large multinational providers that offer some or all of the services that we do; off-shore service providers in lower-cost locations that offer services similar to those we offer, often at highly competitive prices and on more aggressive contractual terms; niche solution and service providers or local competitors that compete with us in a specific geographic market, industry segment or service area, including companies that provide new or alternative products, service or delivery models; accounting firms that are expanding or building their provision of some consulting services, including through acquisitions; and in-house departments of large corporations that use their own resources, rather than engage an outside firm for the types of services we provide.

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, greater market presence, and name recognition.

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.

Our future financial performance is largely dependent on our ability to compete successfully in the markets we currently serve. If we are unable to compete successfully, we could lose market share and clients to competitors, which could materially adversely affect our results of operations.

In addition, we may face greater competition due to consolidation of companies in the technology sector, through strategic mergers or acquisition. Consolidation activity may result in new competitors with greater scale, a broader footprint or offerings that are more attractive than ours. We believe that this competition could have a negative effect on our ability to compete for new work and skilled professionals. 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.

We could have liability or our reputation could be damaged if we fail to protect client data or information systems or if our information systems are breached.

We are dependent on information technology networks and systems to process, transmit, and store electronic information and to communicate among our locations and with our partners and clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. In providing services to clients, we are also required at times to manage, utilize, and store sensitive or confidential client or employee data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as various U.S. federal and state laws governing the protection of personally identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, regulatory enforcement actions, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure,

employee negligence, fraud or misappropriation could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our employees or third parties, could result in negative publicity, significant remediation costs, legal liability, and damage to our reputation and could have a material adverse effect on our results of operations. In addition, our liability insurance might not be sufficient in type or amount to cover us against claims related to security breaches, cyber-attacks and other related breaches.

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We might not be successful at identifying, acquiring, or integrating other businesses.

We have continued our disciplined acquisition strategy designed to enhance or add to our offerings of services and solutions, or to enable us to expand in certain geographic and other markets. Depending on the opportunities available, we may increase our investment in such acquisitions. We may not successfully identify suitable acquisition candidates, succeed in completing targeted transactions, or achieve desired results of operations. Furthermore, we face risks in successfully integrating any businesses we acquire. Ongoing business may be disrupted and our management's attention may be diverted by acquisitions, transition or integration activities. In addition, we might need to dedicate additional management and other resources, and our organizational structure could make it difficult for us to efficiently integrate acquired businesses into our ongoing operations and assimilate and retain employees of those businesses into our culture and operations.

We might fail to realize the expected benefits or strategic objectives of any acquisition we make. We might not achieve our expected return on investment, or we may lose money. We may be adversely impacted by liabilities that we assume from a company we acquire, including from that company's known and unknown obligations, intellectual property or other assets, terminated employees, current or former clients, or other third parties, and we may fail to identify or adequately assess the magnitude of certain liabilities, shortcomings or other circumstances prior to acquisition, which could result in unexpected legal or regulatory exposure, unfavorable accounting treatment, unexpected increases in taxes, or other adverse effects on our business. If we are unable to complete the number and kind of acquisitions for which we plan, or if we are inefficient or unsuccessful at integrating any acquired businesses into our operations, we may not be able to achieve our planned rates of growth or improve our market share, profitability, or competitive position in specific markets or services.

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

We maintain a global development center in Hangzhou, China and a technology consulting recruiting and development facility in Chennai, India. 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 U.S. 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.

Less than 15% of our billable workforce is comprised of skilled foreign nationals holding H1-B visas. We also own a recruiting and development 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.

Our results of operations could materially suffer if we are not able to obtain favorable pricing.

If we are not able to obtain favorable pricing for our services, our revenues and profitability could materially suffer. The rates we are able to charge for our services are affected by a number of factors, including, but not limited to:

- general economic and political conditions;
- the competitive environment in our industry, as described below;
- our clients' desire to reduce their costs;
- our ability to accurately estimate, attain, and sustain contract revenues, margins, and cash flows over the full contract period; and
- procurement practices of clients and their use of third-party advisors.

The competitive environment in our industry affects our ability to obtain favorable pricing in a number of ways, any of which could have a material negative impact on our results of operations. The less we are able to differentiate our services and solutions and/or clearly convey the value of our services and solutions, the more risk we have that they will be seen as commodities, with price being the driving factor in selecting a service provider. In addition, the introduction of new services or products by competitors could reduce our ability to obtain favorable pricing for the services or products we offer. Competitors may be willing, at times, to price contracts lower than us in an effort to enter the market or increase market share. Further, if competitors develop and implement methodologies that yield greater efficiency and productivity, they may be better positioned to offer services similar to ours at lower prices.

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, including time and materials and fixed fee contracts. Our fees are highly dependent on our internal forecasts and predictions about the level of effort and cost necessary to deliver such services and solutions, which might be based on limited data and could turn out to be materially inaccurate. If we do not accurately estimate the level of effort or cost, our contracts could yield lower profit margins than planned, or be unprofitable. We could face greater risk when negotiating fees for our contracts that involve the coordination of operations and workforces in multiple locations and/or utilizing workforces with different skillsets and competencies. There is a risk that we will underprice 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.

Our business could be materially adversely affected if we incur legal liability in connection with providing our services and solutions.

We could be subject to significant legal liability and litigation expense if we fail to meet our contractual obligations, or otherwise breach obligations, to third parties, including clients, partners, employees and former employees, and other parties with whom we conduct business, or if our subcontractors breach or dispute the terms of our agreements with them and impede our ability to meet our obligations to our clients. We may enter into agreements with non-standard terms because we perceive an important economic opportunity or because our personnel did not adequately follow our contracting guidelines. In addition, the contracting practices of competitors, along with the demands of increasingly sophisticated clients, may cause contract terms and conditions that are unfavorable to us to become new standards in the marketplace. We may find ourselves committed to providing services or solutions that we are unable to deliver or whose delivery will reduce our profitability or cause us financial loss. If we cannot or do not meet our contractual obligations and if our potential liability is not adequately limited through the terms of our agreements, liability limitations are not enforced or a third party alleges fraud or other wrongdoing to prevent us from relying upon those contractual protections, we might face significant legal liability and litigation expense and our results of operations could be materially adversely affected. A failure of a client's system based on our services or solutions could also subject us to a claim for significant damages that could materially adversely affect our results of operations. In addition to expense, litigation can be lengthy and disruptive to normal business operations, and litigation results can be unpredictable. While we maintain insurance for certain potential liabilities, such insurance does not cover all types and amounts of potential liabilities and is subject to various exclusions as well as caps on amounts recoverable. Even if we believe a claim is covered by insurance, insurers may dispute our entitlement to recovery for a variety of potential reasons, which may affect the timing and, if they prevail, the amount of our recovery.

Our results of operations and ability to grow could be materially negatively affected if we cannot adapt and expand our services and solutions in response to ongoing changes in technology and offerings by new entrants.

Our success depends on our ability to continue to develop and implement services and solutions that anticipate and respond to rapid and continuing changes in technology and industry developments and offerings by new entrants to serve the evolving needs of our clients. Current areas of significant change include mobility, cloud-based computing and the processing and analyzing of large amounts of data. Technological developments such as these may materially affect the cost and use of technology by our clients. Our growth strategy focuses on responding to these types of developments by driving innovation for our core business as well as through new business initiatives beyond our core business that will enable us to differentiate our services and solutions. If we do not sufficiently invest in new technology and industry developments, or if we do not make the right strategic investments to respond to these

developments and successfully drive innovation, our services and solutions, our results of operations, and our ability to develop and maintain a competitive advantage and continue to grow could be negatively affected.

In addition, we operate in a quickly evolving environment, in which there currently are, and we expect will continue to be, new technology entrants. New services or technologies offered by competitors or new entrants may make our offerings less differentiated or less competitive, when compared to other alternatives, which may adversely affect our results of operations.

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

We have significant relationships with software vendors including IBM, Oracle, and Microsoft. Our business relationships with these companies enable us to reduce our cost of acquiring customers 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. The financial impact of the loss of one or more software vendors is not reasonably estimable.

Our services could 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 could 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, could be costly, time-consuming, and harmful to our reputation.

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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. These laws are subject to change at any time and could further restrict our ability to protect our innovations. Our intellectual property rights may not prevent competitors from independently developing products and services similar to or duplicative of ours. Further, the steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property by competitors, former employees or other third parties, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights. Enforcing our rights might also require considerable time, money and oversight and we may not be successful in enforcing our 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.

Our ability to attract and retain business may depend on our reputation in the marketplace.

We believe the Perficient brand name and our reputation are important corporate assets that help distinguish our services from those of our competitors and also contribute to our efforts to recruit and retain talented employees. However, our corporate reputation is potentially susceptible to material damage by events such as disputes with clients, information technology security breaches or service outages, or other delivery failures. Similarly, our reputation could be damaged by actions or statements of current or former clients, employees, competitors, vendors, as well as members of the investment community and the media. There is a risk that negative information could adversely affect our business. Damage to our reputation could be difficult and time-consuming to repair, could make potential or existing clients reluctant to select us for new engagements, resulting in a loss of business, and could adversely affect our recruitment and retention efforts. Damage to our reputation could also reduce the value and effectiveness of the Perficient brand name and could reduce investor confidence in us, materially adversely affecting our share price.

Our profitability could suffer if our cost-management strategies are unsuccessful.

Our ability to improve or maintain our profitability is dependent on our being able to successfully manage our costs. Our cost management strategies include maintaining appropriate alignment between the demand for our services and our resource capacity, optimizing the costs of service delivery and maintaining or improving our sales and marketing and general and administrative costs as a percentage of revenues. These actions and other cost-management efforts may not be successful, our efficiency may not be enhanced and we may not achieve desired levels of profitability. Because of the significant steps taken in the past to reduce costs, we may not be able to continue to deliver efficiencies in our cost management, to the same degree as in the past. If we are not effective in reducing our operating costs in response to changes in demand or pricing, we might not be able to manage significantly larger and more diverse workforces as we increase the number of colleagues and execute our growth strategy, control our costs or improve our efficiency, and our profitability could be negatively affected.

Changes in our level of taxes, and audits, investigations and tax proceedings could have a material adverse effect on our results of operations and financial condition.

We are subject to income taxes in numerous jurisdictions. We calculate and provide for income taxes in each tax jurisdiction in which we operate. Tax accounting often involves complex matters and requires our judgment to determine our corporate provision for income taxes and other tax liabilities. We are subject to ongoing tax audits in various jurisdictions. Tax authorities have disagreed, and may in the future disagree, with our judgments, or may take increasingly aggressive positions opposing the judgments we make. We regularly assess the likely outcomes of these audits to determine the appropriateness of our tax liabilities. However, our judgments might not be sustained as a result of these audits, and the amounts ultimately paid could be different from the amounts previously recorded. In addition, our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws. Tax rates in the jurisdictions in which we operate may change as a result of macroeconomic or other factors outside of our control. Increases in the tax rate in any of the jurisdictions in which we operate could have a negative impact on our profitability. In addition, changes in tax laws, treaties, or regulations, or their interpretation or enforcement, may be unpredictable and could materially adversely affect our tax position. Any of these occurrences could have a material adverse effect on our results of operations and financial condition.

If we do not effectively manage expected future 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 expected future growth. In order to create the additional capacity necessary to accommodate an increase in 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 colleagues. We may not be able to achieve or maintain optimal utilization of our offices and colleagues. 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.

If we are unable to collect our receivables or unbilled services, our results of operations, financial condition, and cash flows could be adversely affected.

Our business depends on our ability to successfully obtain payment from our clients of the amounts they owe us for work performed. We evaluate the financial condition of our clients and usually bill and collect on relatively short cycles. We have established allowances for losses of receivables and unbilled services. Actual losses on client balances could differ from those that we currently anticipate and as a result we might need to adjust our allowances. We might not accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, including bankruptcy and insolvency. This could cause clients to delay payments to us, request modifications to their payment arrangements that could increase our receivables balance, or default on their payment obligations to us. Recovery of client financing and timely collection of client balances also depends on our ability to complete our contractual commitments and bill and collect our contracted revenues. If we are unable to meet our contractual requirements, we might experience delays in collection of and/or be unable to collect our client balances, and if this occurs, our results of operations and cash flows could be adversely affected. In addition, if we experience an increase in the time to bill and collect for our services, our cash flows could be adversely affected.

Our stock price and results of operations could fluctuate and be difficult to predict.

Our stock price has fluctuated in the past and could continue to fluctuate in the future in response to various factors. These factors include:

- changes in macroeconomic or political factors unrelated to our business;
- general or industry-specific market conditions or changes in financial markets;
- announcements by us or competitors about developments in our business or prospects;
- projections or speculation about our business or that of competitors by the media or investment analysts;
- and
- our ability to meet our growth and financial objectives, including with respect to our overall revenue growth, revenue growth for our priority emerging markets and earnings per share growth.

Our results of operations have varied in the past and could vary significantly from quarter to quarter in the future, making them difficult to predict. Some of the factors that could cause our results of operations to vary include:

- the business decisions of our clients to begin to curtail or reduce the use of our services, including in response to changes in macroeconomic or political conditions unrelated to our business or general market conditions;
- periodic differences between our clients' estimated and actual levels of business activity associated with ongoing work, as well as the stage of completion of existing projects and/or their termination or restructuring;
- contract delivery inefficiencies, such as those due to poor delivery or changes in forecasts;
- our ability to transition employees quickly from completed to new projects and maintain an appropriate headcount in each of our workforces;
- acquisition, integration and operational costs related to businesses acquired;
- the introduction of new products or services by us, competitors or partners;
- changes in our pricing or competitors' pricing;
- our ability to manage costs, including those for our own or subcontracted personnel, travel, support services and severance;
- our ability to limit and manage the incurrence of pre-contract costs, which must be expensed without corresponding revenues, which are then recognized in later periods without the corresponding costs;
- changes in, or the application of changes in, accounting principles or pronouncements under U.S. generally accepted accounting principles, particularly those related to revenue recognition;
- currency exchange rate fluctuations;
- changes in estimates, accruals or payments of variable compensation to our employees;
- global, regional and local economic and political conditions and related risks, including acts of terrorism; and

·seasonality, including number of workdays and holidays and summer vacations.

As a result of any of the above factors, or any of the other risks described in this Item 1A, "Risk Factors," our stock price could be difficult to predict, and our stock price in the past might not be a good indicator of the price of our stock in the future.

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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.

As of December 31, 2013, we had unrestricted cash and cash equivalents totaling \$7.0 million and a borrowing capacity of \$55.8 million, and a commitment to increase our borrowing capacity by \$25.0 million. Of the \$7.0 million of cash and cash equivalents at December 31, 2013, \$4.0 million was held by our Chinese operations and is considered to be indefinitely reinvested in those operations. We intend to continue to make investments to support our business growth and may require additional funds if our capital is insufficient 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 our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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 Perficient.

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

In addition to the 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.

Item 2. Properties.

We have offices in multiple markets throughout North America and in China, India, and Canada. Our principal executive operations are located in St. Louis, Missouri where we have leased approximately 5,100 square feet for these functions. In late 2013, we entered into a new lease agreement for approximately 31,000 square feet which will consolidate our St. Louis locations, including our principal executive operations. The transition to the new location will occur over the course of 2014 and is not expected to materially impact the operations of the Company. We do not own any real property; all of our office space is leased under long-term leases with varying expiration dates. We believe our facilities are adequate to meet our needs in the near future.

Item 3. Legal Proceedings.

We are involved from time to time in various legal proceedings arising in the ordinary course of business. Although the outcome of lawsuits or other proceedings cannot be predicted with certainty and the amount of any liability that could arise with respect to such lawsuits or other proceedings cannot be predicted accurately, we do not expect any currently pending matters to have a material adverse effect on the financial position, results of operations, or cash flows of Perficient.

Item 4. Mine Safety Disclosures.

Not applicable.

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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, 2012.

	High	Low
Year Ending December 31, 2013:		
First Quarter	\$12.38	\$11.14
Second Quarter	13.95	10.00
Third Quarter	18.51	12.51
Fourth Quarter	24.11	17.25
Year Ending December 31, 2012:		
First Quarter	\$12.80	\$10.24
Second Quarter	12.95	10.62
Third Quarter	13.54	9.79
Fourth Quarter	12.38	9.78

On March 3, 2014, the last reported sale price of our common stock on The Nasdaq Global Select Market was \$20.08 per share. There were approximately 358 stockholders of record of our common stock as of March 3, 2014, including 260 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 in Part III, Item 11 of this Annual Report on Form 10-K.

Unregistered Sales of Securities

In connection with our acquisitions of TriTek, Clear Task and CoreMatrix during 2013, we issued: 483,799 unregistered shares of our common stock to TriTek's principals on May 1, 2013; 144,522 unregistered shares of our common stock to Clear Task on May 17, 2013; and 172,117 unregistered shares of our common stock to CoreMatrix on October 11, 2013. For each of these issuances, we relied on Section 4(a)(2) and Regulation D of the Securities Act of 1933, as amended, as the basis for exemption from registration. These shares were issued in separate, privately negotiated transactions and not pursuant to any public solicitation.

Issuer Purchases of Equity Securities

Prior to 2013, our Board of Directors authorized the repurchase of up to \$70.0 million of our common stock. In June 2013, our Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock for a total repurchase program of \$90.0 million at December 31, 2013. The repurchase program expires December 31, 2014. 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 our management based on its evaluation of market conditions, share price, and other factors.

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Since the program's inception on August 11, 2008, we have repurchased approximately \$73.8 million (9.0 million shares) of our outstanding common stock through December 31, 2013.

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
Beginning Balance as of October 1, 2013	8,928,670	\$ 8.19	8,928,670	\$ 16,862,119
October 1-31, 2013	-	-	-	\$ 16,862,119
November 1-30, 2013	31,200	19.75	31,200	\$ 16,245,802
December 1-31, 2013	3,085	20.02	3,085	\$ 16,184,041
Ending Balance as of December 31, 2013	8,962,955	\$ 8.24	8,962,955	

(1) Average price paid per share includes commission.

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, 2013, has been prepared in accordance with accounting principles generally accepted in the United States. The financial data presented is not directly comparable between periods as a result of three acquisitions in each of 2013 and 2012 and two acquisitions in each of 2011 and 2010.

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,				
	2013	2012	2011	2010	2009
Income Statement Data:	(In thousands, except per share information)				
Revenues	\$373,325	\$327,096	\$262,439	\$214,952	\$188,150
Gross margin	\$123,099	\$103,403	\$81,134	\$62,767	\$48,333
Selling, general and administrative	\$77,601	\$64,853	\$51,672	\$45,477	\$40,042
Depreciation and amortization	\$11,236	\$10,078	\$8,095	\$4,784	\$5,750
Acquisition costs	\$2,297	\$1,871	\$1,249	\$993	\$-
Adjustment to fair value of contingent consideration	\$287	\$517	\$1,586	\$(4)	\$-
Income from operations	\$31,678	\$26,084	\$18,532	\$11,517	\$2,541
Net interest (expense) income	\$(293)	\$(143)	\$68	\$163	\$209
Net other income	\$112	\$44	\$45	\$68	\$260
Income before income taxes	\$31,497	\$25,985	\$18,645	\$11,748	\$3,010
Net income	\$21,432	\$16,107	\$10,747	\$6,480	\$1,463
Basic net income per share	\$0.71	\$0.54	\$0.39	\$0.24	\$0.05
Diluted net income per share	\$0.67	\$0.52	\$0.37	\$0.23	\$0.05

	As of December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data:	(In thousands)				
Cash, cash equivalents, and short-term investments	\$7,018	\$5,813	\$9,732	\$24,008	\$24,302
Working capital (1)	\$57,268	\$52,277	\$51,476	\$47,632	\$50,205
Long-term investments	\$-	\$-	\$-	\$2,254	\$3,652
Property and equipment, net	\$7,709	\$4,398	\$3,490	\$2,355	\$1,278
Goodwill and intangible assets, net	\$218,997	\$178,286	\$142,166	\$124,056	\$111,773
Total assets	\$325,749	\$267,194	\$223,932	\$207,678	\$184,810
Long-term debt	\$19,000	\$2,800	\$-	\$-	\$-
Total stockholders' equity	\$259,490	\$234,413	\$198,959	\$177,164	\$168,348

(1) Working capital is total current assets less total current liabilities

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 on Form 10-K and in the documents that we incorporate by reference into this Annual Report on Form 10-K. This Annual Report on Form 10-K 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 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 business analysis, portals and collaboration, business integration, user experience, enterprise content management, customer relationship management, interactive design, enterprise performance management, business process management, business intelligence, eCommerce, mobile platforms, custom applications, and technology platform implementations, among others. 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.

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Services Revenues

Services revenues are derived from professional services that include 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, while a smaller portion of our revenues is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 10% of our services revenues for the year ended December 31, 2013 compared to 11% for both years ended December 31, 2012 and 2011. 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 an input method based on the ratio of hours expended to total estimated hours. Amounts invoiced and collected 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 clients, 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. On rare occasions, we do not meet the requirements to be considered a principal in the transaction and act as an agent. In these cases, revenues are recorded on a net basis. Software and hardware revenues are expected to fluctuate depending on our clients' demand for these products.

If we enter into contracts for the sale of services and software or hardware, management evaluates whether each element should be accounted for separately by considering the following criteria: (1) whether the deliverables have value to the client on a stand-alone basis; and (2) whether delivery or performance of the undelivered item or items is considered probable and substantially in our control (only if the arrangement includes a general right of return related to the delivered item). Further, for sales of software and services, management also evaluates whether the services are essential to the functionality of the software and whether management has fair value evidence for each deliverable. If management concludes that the separation criteria are met, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of our multiple element arrangements meet these criteria and are accounted for separately, with the arrangement consideration allocated among the deliverables using vendor specific objective evidence of the selling price. As a result, we generally recognize software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

Further, delivery of software and hardware sales, when sold contemporaneously with services, can generally occur at varying times depending on the specific client project arrangement. Delivery of services generally occurs over a period of time consistent with the timeline as outlined in the client contract.

There are no significant cancellation or termination-type provisions for our software and hardware sales. Contracts for our professional services provide for a general right, to the client or us, to cancel or terminate the contract within a given period of time (generally 10 to 30 days' notice is required). The client is responsible for any time and expenses incurred up to the date of cancellation or termination of the contract.

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. 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 clients. 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 clients divided by the total available hours in the respective period), the salaries we pay our professionals, and the average billing rate we receive from our clients. If a project ends earlier than scheduled, 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.

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Selling, General, and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are primarily composed of sales-related costs, general and administrative salaries, stock compensation expense, office costs, recruiting expense, variable compensation costs, research and development, bad debt, and other miscellaneous expenses. We work to minimize selling costs by focusing on repeat business with existing clients and by accessing sales leads generated by our software vendors, most notably IBM, Oracle and Microsoft, 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 by expanding our relationships with existing and new clients and through the continuation of our disciplined acquisition strategy. Our future growth plan includes expanding our business with a primary focus on customers in the United States, both organically and through acquisitions. Given the economic conditions during 2008 and 2009 we suspended acquisition activity pending improved visibility into the health of the economy. With the return to growth in 2010, we resumed our disciplined acquisition strategy as evidenced by our acquisitions of Kerdock Consulting, LLC ("Kerdock") in March 2010, speakTECH in December 2010, Exervio Consulting Inc. ("Exervio") in April 2011, JCB Partners, LLC ("JCB") in July 2011, PointBridge Solutions, LLC ("PointBridge") in February 2012, Nascent Systems, LP ("Nascent") in June 2012, Northridge Systems, Inc. ("Northridge") in July 2012, TriTek and Clear Task in May 2013, and CoreMatrix in October 2013. We also intend to further leverage our existing offshore capabilities to support our future growth and provide our clients flexible options for project delivery.

When analyzing revenue growth by base business compared to acquired companies in the Results of Operations section below, revenue attributable to base business is defined as revenue from an acquired company that has been owned for a full four quarters after the date of acquisition.

Results of Operations

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

Revenues:	2013	2012	2011
Services revenues	87.5%	87.6%	88.8%
Software and hardware revenues	8.1	7.7	6.0
Reimbursable expenses	4.4	4.7	5.2
Total revenues	100.0	100.0	100.0
Cost of revenues (depreciation and amortization, shown separately below):			
Project personnel costs	54.4	55.9	56.9
Software and hardware costs	7.1	6.6	5.2
Reimbursable expenses	4.4	4.7	5.2
Other project-related expenses	1.1	1.2	1.8
Total cost of revenues	67.0	68.4	69.1
Services gross margin	36.6	34.8	33.9
Software and hardware gross margin	11.8	14.5	13.5
Total gross margin	33.0	31.6	30.9
Selling, general and administrative	20.8	19.8	19.7
Depreciation and amortization	3.0	3.1	3.1
Acquisition costs	0.6	0.6	0.5
Adjustment to fair value of contingent consideration	0.1	0.2	0.5
Income from operations	8.5	7.9	7.1

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Net interest (expense) income	(0.1)	0.0	0.0
Net other income	0.0	0.0	0.0
Income before income taxes	8.4	7.9	7.1
Provision for income taxes	2.7	3.0	3.0
Net income	5.7%	4.9%	4.1%

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Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues. Total revenues increased 14% to \$373.3 million for the year ended December 31, 2013 from \$327.1 million for the year ended December 31, 2012.

	Financial Results (in thousands)		Total Increase Over Prior Year Period	Explanation for Increases Over Prior Year Period (in thousands)	
	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012		Increase to Acquired Companies	Increase to Base Business
Services Revenues	\$326,589	\$286,548	\$40,041	\$27,614	\$12,427
Software and Hardware Revenues	30,224	25,188	5,036	606	4,430
Reimbursable Expenses	16,512	15,360	1,152	918	234
Total Revenues	\$373,325	\$327,096	\$46,229	\$29,138	\$17,091

Services revenues increased 14% to \$326.6 million for the year ended December 31, 2013 from \$286.5 million for the year ended December 31, 2012. The increase in services revenues is primarily due to acquisitions during 2013 and 2012. Services revenues attributable to our base business increased \$12.4 million while services revenues attributable to acquired companies increased \$27.6 million, resulting in a total increase of \$40.0 million.

Software and hardware revenues increased 20% to \$30.2 million for the year ended December 31, 2013 from \$25.2 million for the year ended December 31, 2012 due to the increase in the volume and magnitude of software renewals as compared to 2012. Reimbursable expenses increased 8% to \$16.5 million for the year ended December 31, 2013 from \$15.4 million for the year ended December 31, 2012 primarily as a result of the increase in services revenue. We did not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 12% to \$250.2 million for the year ended December 31, 2013 from \$223.7 million for the year ended December 31, 2012. The increase in cost of revenues was directly related to the increase in revenues attributable to the Company's base business and through acquisitions. More specifically, the increase in the cost of revenue is due to the increase in headcount to support the Company's ongoing revenue-producing projects. The average number of colleagues performing services, including subcontractors, increased to 1,725 for the year ended December 31, 2013 from 1,518 for the year ended December 31, 2012.

Gross Margin. Gross margin increased 19% to \$123.1 million for the year ended December 31, 2013 from \$103.4 million for the year ended December 31, 2012. Gross margin as a percentage of revenues increased to 33.0% for the year ended December 31, 2013 from 31.6% for the year ended December 31, 2012, primarily due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 36.6% or \$119.5 million for the year ended December 31, 2013 from 34.8% or \$99.8 million for the year ended December 31, 2012. The increase in services gross margin was primarily a result of a higher average bill rate. The average bill rate for our professionals increased to \$123 per hour for the year ended December 31, 2013 from \$119 per hour for the year ended December 31, 2012, primarily due to the improved pricing opportunities as the market for our services continues to improve. The average bill rate for the year ended December 31, 2013, excluding China and India, was \$135 per hour compared to \$129 per hour for the year ended December 31, 2012.

Selling, General and Administrative. SG&A expenses increased 20% to \$77.6 million for the year ended December 31, 2013 from \$64.9 million for the year ended December 31, 2012 due primarily to fluctuations in expenses as

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detailed in the following table. SG&A expenses, as a percentage of revenues, increased to 20.8% for the year ended December 31, 2013 from 19.8% for the year ended December 31, 2012.

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012	Increase/ (Decrease)	Percentage Change	
Selling, General and Administrative Expense (in millions)					
Sales-related costs	\$ 24.4	\$ 21.4	\$ 3.0	14	%
Salary expense	15.9	13.1	2.8	21	
Stock compensation expense	7.9	7.0	0.9	13	
Office costs	5.9	4.8	1.1	23	
Recruiting expense	4.7	4.1	0.6	15	
Variable compensation expense	2.9	1.7	1.2	71	
Research and development	1.0	-	1.0	NM	
Bad debt expense	0.4	0.7	(0.3)	(43))
Other	14.5	12.1	2.4	20	
Total	\$ 77.6	\$ 64.9	\$ 12.7	20	%

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Depreciation. Depreciation expense increased 45% to \$3.3 million for the year ended December 31, 2013 from \$2.3 million for the year ended December 31, 2012. The increase in depreciation expense was mainly attributable to increased capital expenditures during 2013 and 2012 and acquisitions. Depreciation expense as a percentage of revenues was 0.9% and 0.7% for the year ended December 31, 2013 and 2012, respectively.

Amortization. Amortization expense increased 2% to \$8.0 million for the year ended December 31, 2013 from \$7.8 million for the year ended December 31, 2012. The increase in amortization expense was due to the addition of intangible assets acquired as a result of the Company's acquisition activity during 2013 and 2012.

Acquisition Costs. Acquisition-related costs of \$2.3 million were incurred during 2013 related to the acquisition of TriTek, Clear Task, and CoreMatrix compared to \$1.9 million during 2012 related to the acquisition of PointBridge, Nascent, and Northridge. Acquisition-related costs were incurred for legal, accounting, and valuation services performed by third parties.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$0.3 million was made during the year ended December 31, 2013 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the Clear Task and CoreMatrix acquisitions. The adjustment of \$0.5 million made during the year ended December 31, 2012 related to the Exervio acquisition.

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 decreased to 32.0% for the year ended December 31, 2013 from 38.0% for the year ended December 31, 2012. The decrease in the effective rate was due primarily to the research and development tax credit for 2013, the research and development tax credit for 2012, which was approved by Congress in January 2013 and recorded in the first quarter of 2013, and the U.S. domestic production deduction for 2010, 2011, 2012, and 2013.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues. Total revenues increased 25% to \$327.1 million for the year ended December 31, 2012 from \$262.4 million for the year ended December 31, 2011.

	Financial Results (in thousands)			Explanation for Increases Over Prior Year Period (in thousands)	
	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	Total Increase Over Prior Year Period	Increase Attributable to Acquired Companies	Increase Attributable to Base Business
Services Revenues	\$286,548	\$233,166	\$53,382	\$39,457	\$13,925
Software and Hardware Revenues	25,188	15,624	9,564	1,690	7,874
Reimbursable Expenses	15,360	13,649	1,711	1,384	327
Total Revenues	\$327,096	\$262,439	\$64,657	\$42,531	\$22,126

Services revenues increased 23% to \$286.5 million for the year ended December 31, 2012 from \$233.2 million for the year ended December 31, 2011. The increase in services revenues is primarily due to acquisitions during 2011 and 2012. Services revenues attributable to our base business increased \$13.9 million while services revenues attributable to acquired companies increased \$39.4 million, resulting in a total increase of \$53.3 million.

Software and hardware revenues increased 61% to \$25.2 million for the year ended December 31, 2012 from \$15.6 million for the year ended December 31, 2011 due to an increase in the volume and magnitude of new software license sales and software license renewals as compared to 2011. Reimbursable expenses increased 13% to \$15.4 million for the year ended December 31, 2012 from \$13.6 million for the year ended December 31, 2011 primarily as a result of the increase in services revenue. We did not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 23% to \$223.7 million for the year ended December 31, 2012 from \$181.3 million for the year ended December 31, 2011. The increase in cost of revenues was directly related to the increase in revenues, specifically the increase in headcount to support the Company's ongoing revenue-producing projects. The average number of colleagues performing services, including subcontractors, increased to 1,518 for the year ended December 31, 2012 from 1,317 for the year ended December 31, 2011.

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Gross Margin. Gross margin increased 27% to \$103.4 million for the year ended December 31, 2012 from \$81.1 million for the year ended December 31, 2011. Gross margin as a percentage of revenues increased to 31.6% for the year ended December 31, 2012 from 30.9% for the year ended December 31, 2011, primarily due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 34.8% or \$99.8 million for the year ended December 31, 2012 from 33.9% or \$79.0 million for the year ended December 31, 2011. The increase in services gross margin was primarily a result of a higher average bill rate. The average bill rate for our professionals, excluding subcontractors, increased to \$119 per hour for the year ended December 31, 2012 from \$116 per hour for the year ended December 31, 2011, primarily due to the improved pricing opportunities. The average bill rate for the year ended December 31, 2012, excluding China, was \$129 per hour compared to \$125 per hour for the year ended December 31, 2011.

Selling, General and Administrative. SG&A expenses increased 26% to \$64.9 million for the year ended December 31, 2012 from \$51.7 million for the year ended December 31, 2011 due primarily to fluctuations in expenses as detailed in the table below. SG&A expenses, as a percentage of revenues, increased slightly to 19.8% for the year ended December 31, 2012 from 19.7% for the year ended December 31, 2011.

	For the Year Ended December	For the Year Ended December	Increase/ (Decrease)	Percentage Change	
Selling, General and Administrative Expense (in millions)	31, 2012	31, 2011	(Decrease)	Change	%
Sales-related costs	\$ 21.4	\$ 14.9	\$ 6.5	44	%
Salary expense	13.1	11.3	1.8	16	
Stock compensation expense	7.0	6.9	0.1	1	
Recruiting expense	4.1	3.9	0.2	5	
Variable compensation expense	1.7	0.7	1.0	143	
Bad debt expense	0.7	1.0	(0.3)	(30))
Other	16.9	13.0	3.9	30	
Total	\$ 64.9	\$ 51.7	\$ 13.2	26	%

Depreciation. Depreciation expense increased 28% to \$2.3 million for the year ended December 31, 2012 from \$1.8 million for the year ended December 31, 2011. The increase in depreciation expense was mainly attributable to the addition of depreciation related to fixed assets from acquisitions during 2011 and 2012. Depreciation expense as a percentage of revenues was 0.7% for each of the years ended December 31, 2012 and 2011.

Amortization. Amortization expense increased 23% to \$7.8 million for the year ended December 31, 2012 from \$6.3 million for the year ended December 31, 2011. The increase in amortization expense was due to the addition of amortization related to acquired intangible assets from acquisitions during 2011 and 2012.

Acquisition Costs. Acquisition-related costs increased 50% to \$1.9 million for the year ended December 31, 2012 from \$1.2 million for the year ended December 31, 2011. The acquisition-related costs incurred during 2012 were related to the acquisition of PointBridge, Nascent, and Northridge, while the acquisition-related costs incurred during 2011 were related to the acquisition of Exervio and JCB. Acquisition-related costs were incurred for legal, accounting, and valuation services performed by third parties.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$0.5 million was made during the year ended December 31, 2012 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the Exervio acquisition. The adjustment of \$1.6 million made during the year ended December 31, 2011 related to the speakTECH and Exervio acquisitions.

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 decreased to 38.0% for the year ended December 31, 2012 from 42.4% for the year ended December 31, 2011. The decrease in the effective rate was due primarily to a research and development tax credit on our 2011 income tax return recorded in 2012 when it was determinable and reasonably estimable. The research and development tax credit for 2012 was enacted by Congress in January 2013 and the resulting tax benefit will be estimated and recorded in 2013.

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Liquidity and Capital Resources

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

	As of December 31,		
	2013	2012	2011
Cash, cash equivalents, and investments	\$7.0	\$5.8	\$9.7
Working capital (including cash and cash equivalents) (1)	\$57.3	\$52.3	\$51.5
Amounts available under credit facilities	\$55.8	\$47.2	\$50.0

(1) Working capital is total current assets less total current liabilities

Net Cash Provided By Operating Activities

Net cash provided by operating activities for the year ended December 31, 2013 was \$46.9 million compared to \$39.2 million and \$14.3 million for the years ended December 31, 2012 and 2011, respectively. For the year ended December 31, 2013, the components of operating cash flows were net income of \$21.4 million plus non-cash charges of \$21.5 million and net working capital reductions of \$3.9 million. The primary components of operating cash flows for the year ended December 31, 2012 were net income of \$16.1 million plus non-cash charges of \$18.5 million and net working capital reductions of \$4.6 million. The primary components of operating cash flow for the year ended December 31, 2011 were net income of \$10.7 million plus non-cash charges of \$17.6 million, partially offset by investments in working capital of \$14.0 million. Our days sales outstanding as of December 31, 2013 decreased to 74 days compared to 75 and 78 days as of December 31, 2012 and 2011, respectively.

Net Cash Used in Investing Activities

For the year ended December 31, 2013, we used \$38.4 million for acquisitions and \$8.0 million for purchases of equipment and to develop certain software for internal use including significant efforts associated with the implementation of a new internal enterprise resource planning system expected to be placed in service in 2014. For the year ended December 31, 2012, we used \$36.6 million for acquisitions and \$2.1 million for purchases of equipment and to develop certain software for internal use. For the year ended December 31, 2011, we used \$19.4 million for acquisitions, \$3.0 million primarily on leasehold improvements and to develop certain software, offset by \$13.6 million in proceeds received from the sale and maturity of our investments.

Net Cash Provided By Financing Activities

For the year ended December 31, 2013, we received proceeds of \$181.2 million from our line of credit and we realized a tax benefit of \$2.6 million related to vesting of stock awards and stock option exercises plus proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan of \$0.3 million. We made payments of \$165.0 million on our line of credit, used \$13.8 million to repurchase shares of our common stock through the stock repurchase program, \$4.3 million to remit taxes withheld as part of a net share settlement of restricted stock vesting, and \$0.4 million in fees related to our credit facility. For the year ended December 31, 2012, we received proceeds of \$134.9 million from our line of credit and we realized a tax benefit of \$1.1 million related to vesting of stock awards and stock option exercises plus proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan of \$0.2 million. We made payments of \$132.1 million on our line of credit, used \$6.1 million to repurchase shares of our common stock through the stock repurchase program, \$1.9 million to remit taxes withheld as part of a net share settlement of restricted stock vesting, and \$0.6 million to settle a portion of the contingent consideration for the purchase of Exervio. During the year ended December 31, 2011, we received proceeds of \$3.7 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized an excess tax benefit of \$1.8 million related to vesting of stock awards and stock option exercises. We used \$1.2 million to settle the contingent consideration for the purchase of speakTECH, \$11.8 million

to repurchase shares of our common stock through the stock repurchase program, \$0.8 million to remit taxes withheld as part of a net share settlement of restricted stock vesting, and \$0.3 million in fees related to our credit facility.

Availability of Funds from Line of Credit Facility

On July 31, 2013, we renewed and extended the term of our Credit Agreement (the "Credit Agreement") with Silicon Valley Bank ("SVB"), U.S. Bank National Association, and Bank of America, N.A. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$75.0 million, subject to a commitment increase of \$25.0 million. The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to \$5.0 million at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. As of December 31, 2013, the Company had an outstanding letter of credit in the amount of \$0.2 million to secure an office space lease. Substantially all of our assets are pledged to secure the credit facility.

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All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of July 31, 2017. Borrowings under the Credit Agreement bear interest at our option of SVB's prime rate (4.00% on December 31, 2013) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.168% on December 31, 2013) plus a margin ranging from 2.00% to 2.50%. The additional margin amount is dependent on the level of outstanding borrowings. As of December 31, 2013, we had \$55.8 million of maximum borrowing capacity. We incur an annual commitment fee of 0.30% on the unused portion of the line of credit.

At December 31, 2013, we were in compliance with all covenants under the Credit Agreement and we expect to remain in compliance during the next 12 months.

Stock Repurchase Program

Prior to 2013, our Board of Directors authorized the repurchase of up to \$70.0 million of our common stock. In June 2013, our Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock for a total repurchase program of \$90.0 million at December 31, 2013. The repurchase program expires December 31, 2014.

From time to time, we establish a written trading plan in accordance with Rule 10b5-1 of the Exchange Act, pursuant to which we make a portion of our 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.

Since the program's inception on August 11, 2008, we have repurchased approximately \$73.8 million (9.0 million shares) of our outstanding common stock through December 31, 2013.

Contractual Obligations

For the year ended December, 2013, there were no material changes outside the ordinary course of business in lease obligations or other contractual obligations. See Note 12, Commitments and Contingencies, in the Notes to Consolidated Financial Statements for further description of our contractual obligations.

As of December 31, 2013, there was \$19.0 million outstanding under the Credit Agreement as compared to \$2.8 million as of December 31, 2012. The amounts are classified as "Long-term debt" within the Consolidated Balance Sheets and will become due and payable no later than the final maturity date of July 31, 2017.

We have incurred commitments to make future payments under contracts such as leases and the Credit Agreement. Maturities under these contracts are set forth in the following table as of December 31, 2013 (in thousands):

	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Operating lease obligations	\$18,850	\$4,063	\$7,377	\$4,634	\$2,776
Total debt	19,000	--	--	19,000	--
Total	\$37,850	\$4,063	\$7,377	\$23,634	\$2,776

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.

Of the total cash and cash equivalents reported on the consolidated balance sheet as of December 31, 2013 of \$7.0 million, approximately \$4.0 million was held by the Company's Chinese operations and is considered to be indefinitely reinvested in those operations. The Company has no intention of repatriating cash from its Chinese operations in the foreseeable future.

We believe that the currently 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 12 months.

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Critical Accounting Policies

Our accounting policies are described in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements. We believe our 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 an input method based on the ratio of hours expended to total estimated hours. Amounts invoiced and collected in excess of revenues recognized are classified as deferred revenues. On many projects we are also reimbursed for out-of-pocket expenses such as airfare, lodging, and meals. These reimbursements are included as a component of revenues. Revenues from software and hardware sales are generally recorded on a gross basis considering our role as a principal in the transaction. On rare occasions, we enter into a transaction where we are not the principal. In these cases, revenue is recorded on a net basis.

Unbilled revenues represent the project time and expenses that have been incurred, but not yet billed to the client, prior to the end of the fiscal period. For time and materials projects, the client is invoiced for the amount of hours worked multiplied by the billing rates as stated in the contract. For fixed fee arrangements, the client is invoiced according to the agreed-upon schedule detailing the amount and timing of payments in the contract. Clients are typically billed monthly for services provided during that month, but can be billed on a more or less frequent basis as determined by the contract. If the time and expenses are worked/incurred and approved at the end of a fiscal period and the invoice has not yet been sent to the client, the amount is recorded as unbilled revenue once we verify all other revenue recognition criteria have been met.

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) collectability is deemed probable. Our policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same customer is in accordance with Accounting Standards Board Accounting Standards Codification ("ASC") Subtopic 985-605, Software – Revenue Recognition, ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements, and ASC Section 605-10-S99 (Staff Accounting Bulletin Topic 13, Revenue Recognition). Specifically, if we enter into contracts for the sale of services and software or hardware, then we evaluate whether each element should be accounted for separately by considering the following criteria: (1) whether the deliverables have value to the client on a stand-alone basis; and (2) whether delivery or performance of the undelivered item or items is considered probable and substantially in our control (only if the arrangement includes a general right of return related to the delivered item). Further, for sales of software and services, we also evaluate whether the services are essential to the functionality of the software and we have fair value evidence for each deliverable. If we have concluded that the separation criteria are met, 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 criteria and are accounted for separately, with the arrangement consideration allocated among the deliverables using vendor specific objective evidence of the selling price. As a result, we generally recognize software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

Further, delivery of software and hardware sales, when sold contemporaneously with services, can generally occur at varying times depending on the specific client project arrangement. Delivery of services generally occurs over a period of time consistent with the timeline as outlined in the client contract.

There are no significant cancellation or termination-type provisions for our software and hardware sales. Contracts for professional services provide for a general right, to the client or to us, to cancel or terminate the contract within a given period of time (generally 10 to 30 days' notice is required). The client is responsible for any time and expenses incurred up to the date of cancellation or termination of the contract.

We may provide multiple services under the terms of an arrangement and we are required to assess whether one or more units of accounting are present. Service fees are typically accounted for as one unit of accounting, as fair value evidence for individual tasks or milestones is not available. We follow 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.

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Allowance for doubtful accounts is based upon specific identification of likely and probable losses. Each accounting period, accounts receivable is evaluated 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. Considerable judgment is used 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 the evaluation of service delivery issues or a client's ability to pay is incorrect, future reductions to revenue or bad debt expense may be incurred.

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 ASC Topic 350, Intangibles – Goodwill and Other ("ASC Topic 350"), we perform an annual impairment test of goodwill. We evaluate goodwill as of October 1 each year and more frequently if events or changes in circumstances indicate that goodwill might be impaired. ASC Topic 350 permits, but does not require, an assessment of qualitative factors to determine whether it is more likely than not that our fair value is less than our carrying amount before applying the two-step goodwill impairment test. If it is more likely than not that our fair value is less than our carrying amount, the two-step goodwill impairment test will be conducted. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. We elected to go directly to step one rather than making a more-likely-than-not assessment based on an evaluation of qualitative factors.

Our annual goodwill impairment test was performed as of October 1, 2013. Our fair value as of the annual testing date exceeded our book value and consequently, no impairment was indicated.

Our fair value was determined by weighting the results of two valuation methods: (1) market capitalization based on the average price of our common stock, including a control premium, for a reasonable period of time prior to the evaluation date (generally 15 days) and (2) a discounted cash flow model. The fair value calculated using our 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 our determination of our overall fair value. While the use of our average common stock price, plus a control premium, may be considered the best evidence of fair value in ASC Topic 350, we believe the volatility in our stock price, and in the market overall, are not always consistently aligned with our financial results or outlook. The discounted cash flow approach allows us to calculate our fair value based on operating performance and meaningful financial metrics.

A key assumption used in the calculation of our fair value using our average common stock price was the consideration of a control premium. We reviewed industry premium data and determined an appropriate control premium for the 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 our 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 our 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, trade name, customer backlog, and internally developed software, which are being amortized over the assets' estimated useful lives using the straight-line method. Estimated useful lives range from less than one year to ten years. Amortization of customer relationships, non-compete arrangements, trade name, customer backlog, and internally developed software is considered an operating expense and is 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.

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 our estimate and an independent valuation. We finalize the purchase price allocation within 12 months of the acquisition date as certain initial accounting valuation estimates are finalized.

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Accounting for Stock-Based Compensation

We estimate 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 our stock option awards. Option valuation models require the input of somewhat subjective assumptions including expected stock price volatility and expected term. We believe 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

We calculate and provide for income taxes in each jurisdiction in which we operate. Deferred tax assets and liabilities, measured using enacted tax rates, are recognized for the future tax consequences of temporary differences between financial reporting and tax bases of assets and liabilities. A valuation allowance reduces the deferred tax assets to the amount that is more likely than not to be realized. We have established liabilities or reduced assets for uncertain tax positions when we believe those tax positions are not more likely than not of being sustained if challenged. We evaluate these uncertain tax positions and adjust the related tax assets and liabilities in light of changing facts and circumstances each quarter.

Recently Adopted Accounting Pronouncements

Our recently adopted accounting pronouncements are fully described in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, except operating lease commitments as disclosed in Note 12, Commitments and Contingencies, in the Notes to Consolidated Financial Statements.

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

We are exposed to market risks associated with changes in foreign currency exchange rates because we generate a portion of our revenues and incur a portion of our expenses in currencies other than the U.S. dollar. As of December 31, 2013, we were exposed to changes in exchange rates between the U.S. dollar and the Canadian dollar, between the U.S. dollar and the Chinese yuan, and between the U.S. dollar and the Indian rupee. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars. Our exposure to foreign currency risk is not significant.

Interest Rate Sensitivity

As of December 31, 2013, there was \$19.0 million outstanding and \$55.8 million of available borrowing capacity under our line of credit facility. Our interest expense will fluctuate as the interest rate for the line of credit floats based, at our option, on our lead lender's prime rate plus a margin or the one-month LIBOR rate plus a margin. Based

on the \$19.0 million outstanding on the line of credit as of December 31, 2013, an increase in the interest rate of 100 basis points would add \$190,000 of interest expense per year, which is not considered material to our financial position or results of operations.

We had unrestricted cash and cash equivalents totaling \$7.0 million at December 31, 2013 and \$5.8 million at December 31, 2012. 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 interest income.

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Item 8. Financial Statements and Supplementary Data.

PERFICIENT, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2013 AND 2012

	December 31,	
	2013	2012
	(In thousands, except share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$7,018	\$5,813
Accounts receivable, net	78,887	69,662
Prepaid expenses	2,569	1,649
Other current assets	6,759	3,717
Total current assets	95,233	80,841
Property and equipment, net	7,709	4,398
Goodwill	193,510	160,936
Intangible assets, net	25,487	17,350
Other non-current assets	3,810	3,669
Total assets	\$325,749	\$267,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$7,667	\$7,959
Other current liabilities	30,298	20,605
Total current liabilities	37,965	28,564
Long-term debt	19,000	2,800
Other non-current liabilities	9,294	1,417
Total liabilities	\$66,259	\$32,781
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Common stock (\$0.001 par value per share; 50,000,000 shares authorized and 40,843,435 shares issued and 31,341,276 shares outstanding as of December 31, 2013; 39,024,337 shares issued and 30,825,123 shares outstanding as of December 31, 2012)	\$41	\$39
Additional paid-in capital	297,997	276,201
Accumulated other comprehensive loss	(378)	(306)
Treasury stock, at cost (9,512,545 shares as of December 31, 2013; 8,199,214 shares as of December 31, 2012)	(81,051)	(62,970)
Retained earnings	42,881	21,449
Total stockholders' equity	259,490	234,413
Total liabilities and stockholders' equity	\$325,749	\$267,194

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Year Ended December 31,		
	2013	2012	2011
	(In thousands, except per share information)		
Revenues:			
Services	\$326,589	\$286,548	\$233,166
Software and hardware	30,224	25,188	15,624
Reimbursable expenses	16,512	15,360	13,649
Total revenues	373,325	327,096	262,439
Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	202,897	182,719	149,243
Software and hardware costs	26,648	21,536	13,521
Reimbursable expenses	16,512	15,360	13,649
Other project-related expenses	4,169	4,078	4,892
Total cost of revenues	250,226	223,693	181,305
Gross margin	123,099	103,403	81,134
Selling, general, and administrative	77,601	64,853	51,672
Depreciation	3,262	2,251	1,754
Amortization	7,974	7,827	6,341
Acquisition costs	2,297	1,871	1,249
Adjustment to fair value of contingent consideration	287	517	1,586
Income from operations	31,678	26,084	18,532
Net interest (expense) income	(293)	(143)	68
Net other income	112	44	45
Income before income taxes	31,497	25,985	18,645
Provision for income taxes	10,065	9,878	7,898
Net income	\$21,432	\$16,107	\$10,747
Basic net income per share	\$0.71	\$0.54	\$0.39
Diluted net income per share	\$0.67	\$0.52	\$0.37
Shares used in computing basic net income per share	30,294	29,536	27,745
Shares used in computing diluted net income per share	31,808	31,086	29,184

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands)

	Year Ended December 31,		
	2013	2012	2011
Net Income	\$21,432	\$16,107	\$10,747
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustment	(72)	(27)	(35)
Net unrealized gain (loss) on investments	-	-	(19)
Comprehensive income	\$21,360	\$16,080	\$10,693

See accompanying notes to consolidated financial statements.

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PERFICIENT, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance at December 31, 2010	27,276	\$ 33	\$ 224,966	\$ (225)	\$(42,205)	\$(5,405)	\$ 177,164
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	814	1	3,711	-	-	-	3,712
Net tax benefit from stock option exercises and restricted stock vesting	-	-	1,219	-	-	-	1,219
Stock compensation related to restricted stock vesting and retirement savings plan contributions	929	1	9,177	-	-	-	9,178
Purchases of treasury stock	(1,378)	-	-	-	(12,790)	-	(12,790)
Issuance of stock for acquisitions	1,102	1	9,782	-	-	-	9,783
Net income	-	-	-	-	-	10,747	10,747
Foreign currency translation adjustment	-	-	-	(35)	-	-	(35)
Net unrealized gain on investments	-	-	-	(19)	-	-	(19)
Balance at December 31, 2011	28,743	\$ 36	\$ 248,855	\$ (279)	\$(54,995)	\$ 5,342	\$ 198,959
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	56	-	202	-	-	-	202
Net tax benefit from stock option exercises and restricted stock vesting	-	-	855	-	-	-	855
Stock compensation related to restricted stock vesting and retirement savings plan contributions	950	1	9,589	-	-	-	9,590
Purchases of treasury stock and buyback of shares for taxes	(724)	-	-	-	(7,975)	-	(7,975)
Issuance of stock for acquisitions	1,800	2	16,700	-	-	-	16,702
Net income	-	-	-	-	-	16,107	16,107
Foreign currency translation adjustment	-	-	-	(27)	-	-	(27)
Net unrealized loss on investments	-	-	-	-	-	-	-
Balance at December 31, 2012	30,825	\$ 39	\$ 276,201	\$ (306)	\$(62,970)	\$ 21,449	\$ 234,413
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	80	-	332	-	-	-	332
Net tax benefit from stock option exercises and restricted stock vesting	-	-	2,578	-	-	-	2,578

Stock compensation related to restricted stock vesting and retirement savings plan contributions	949	-	11,034	-	-	-	11,034
Purchases of treasury stock and buyback of shares for taxes	(1,313)	-	-	-	(18,081)	-	(18,081)
Issuance of stock for acquisitions	800	2	7,852	-	-	-	7,854
Net income	-	-	-	-	-	21,432	21,432
Foreign currency translation adjustment	-	-	-	(72)	-	-	(72)
Balance at December 31, 2013	31,341	\$ 41	\$297,997	\$ (378)	\$(81,051)	\$42,881	\$ 259,490

See accompanying notes to consolidated financial statements.

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PERFICIENT, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
OPERATING ACTIVITIES			
Net income	\$21,432	\$16,107	\$10,747
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	3,262	2,251	1,754
Amortization			