

PERFICIENT INC
Form 10-K
March 01, 2012

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, 2011
 Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 001-15169

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

Delaware
(State or other jurisdiction of incorporation or organization)

No. 74-2853258
(I.R.S. Employer Identification No.)

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: Common Stock, \$0.001 par value
Name of each exchange on which registered: 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

Edgar Filing: PERFICIENT INC - Form 10-K

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 \$294.5 million based on the last reported sale price of the Company's common stock on The Nasdaq Global Select Market on June 30, 2011.

As of February 27, 2012, there were 31,269,447– shares of Common Stock outstanding.

Portions of the definitive proxy statement in connection with the 2012 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than -----April 30, 2012, are incorporated by reference in Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

Item 1.	Business.	1
Item 1A.	Risk Factors.	5
Item 1B.	Unresolved Staff Comments.	13
Item 2.	Properties.	13
Item 3.	Legal Proceedings.	13
Item 4.	Reserved.	13

PART II

Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	14
Item 6.	Selected Financial Data.	15
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	15
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk.	25
Item 8.	Financial Statements and Supplementary Data.	26
Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.	47
Item 9A.	Controls and Procedures.	47
Item 9B.	Other Information.	47

PART III

Item 10.	Directors, Executive Officers and Corporate Governance.	48
Item 11.	Executive Compensation.	49
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	49
Item 13.	Certain Relationships and Related Transactions, and Director Independence.	49
Item 14.	Principal Accounting Fees and Services.	49

PART IV

Item 15.	Exhibits, Financial Statement Schedules.	50
----------	--	----

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

All forward-looking statements, express or implied, included in this report and the documents we incorporate by reference and that are attributable to Perficient, Inc. 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, Inc. or any persons acting on our behalf may issue.

Item 1. Business.

Overview

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

We serve our clients from locations in 20 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 \$5 million in fees, which we believe to be below the target project range of most large systems integrators and beyond the delivery capabilities of most local boutique consulting firms.

During 2011, we continued to implement a strategy focused on: expanding our relationships with existing and new clients; continuing to make disciplined acquisitions by acquiring Exervio Consulting, Inc. ("Exervio") in April 2011 and JCB Partners, LLC ("JCB") in July 2011; expanding our technical skill and geographic base by expanding our business both organically and through acquisitions, with a primary focus on the United States; expanding our brand visibility among prospective clients, employees, and software vendors; leveraging our offshore capabilities in Canada, Europe, China, and India; and leveraging our existing and pursuing new strategic alliances by targeting leading business advisory companies and technology providers.

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.
- 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.
- 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.
- Technology platform implementations. We design, develop, and implement technology platform implementations that allow our clients to establish a robust, reliable Internet-based infrastructure for

integrated business applications which extend enterprise technology assets to employees, customers, suppliers, and partners. Our platform services include application server selection, architecture planning, installation and configuration, clustering for availability, performance assessment and issue remediation, security services, and technology migrations.

- 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.
- 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 IT infrastructures.
- Enterprise content management (ECM). We design, develop, and implement ECM solutions that enable the management of all unstructured information regardless of file type or format. Our ECM solutions can facilitate the creation of new content and/or provide easy access and retrieval of existing digital assets from other enterprise tools such as enterprise resource planning (ERP), customer relationship management, or legacy applications. 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.

- **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.

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

In addition to our technology solution services, 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, Oracle and Microsoft, 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, 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, 2011, 2010 and 2009, 81%, 84% and 92%, 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, an Oracle Platinum Partner, a Microsoft Gold Certified Partner and National Systems Integrator, a TeamTIBCO Partner, and an EMC Consulting Preferred Partner. Our vendors have recognized our relationships with several awards. In 2011 we were named IBM's Lotus North America Distinguished Partner, making us a three-time winner of this award. We also received the IBM Information Management Solution Excellence Award and the IBM Information Management Business Analytics Solution Provider Achievement Award.
- **Offshore Capability.** We serve our clients from locations in 20 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, Oracle and Microsoft 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, 2011, we had 204 colleagues at the Hangzhou, China facility and 205 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 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, 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.

Clients

During the year ended December 31, 2011, we provided services to 597 customers. No one customer provided more than 10% of our total revenues for the years ended 2011, 2010 or 2009.

Employees

As of December 31, 2011, we had 1,484 colleagues, 1,240 of which were billable (excludes 171 billable subcontractors) and 244 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, 2011, we had a 57 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 85% of our sales are executed by our direct sales force. In addition to our direct sales team, we also have 28 dedicated sales support employees, 19 general managers and three vice-presidents who are engaged in the sales and marketing efforts.

We have sales and marketing partnerships with software vendors including IBM, Oracle and Microsoft, 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, 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. 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.

Culture

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

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

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

General Information

Our stock is traded on The Nasdaq Global Select Market under the symbol "PRFT." Our website can be visited at www.perficient.com. We make available free of charge through our website our annual reports on Form 10-K,

quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”) as soon as reasonably practicable after we electronically file such material, or furnish it to, the Securities and Exchange Commission. The information contained or incorporated in our website is not part of this document.

Item 1A. Risk Factors.

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

Risks Related to Our Business

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.

Our results of operations are affected by the levels of business activities of our clients, which can be affected by economic conditions in the United States and worldwide. Volatile, negative or uncertain economic conditions in our significant markets could undermine business confidence, both in those markets and other markets 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, 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 may affect demand for our services. A material portion of our revenues and profitability is derived from our clients in North America. Weakening in this market as a result of high government deficits, credit downgrades or otherwise, 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, and could have a significant negative impact on our results of operations.

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

Our professional services agreements with clients are, in most cases, terminable on 10 to 30 days' notice. A client may choose at any time to use another consulting firm, choose to perform services we provide through their own internal resources, choose not to retain us for additional stages of a project that involves multiple stages, or try to renegotiate the terms of its contract or cancel or delay additional planned work. Terminations, cancellations, or delays could result from factors that are beyond our control and unrelated to our work product or the progress of the project, including the business or financial conditions of the client, changes in ownership or management at our clients, and changes in client strategies, the economy, or markets generally. When contracts are terminated, we lose the anticipated revenues and might not be able to replace, or it may take significant time to replace, the lost revenue with other work or eliminated associated costs. Consequently, our results of operations in subsequent periods could be materially lower than expected. Additionally, termination of a relationship with a significant client or with a group of clients that account for a significant portion of our revenues could adversely affect our revenues and results of operations.

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

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

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

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

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

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

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

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

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

We could have liability or our reputation could be damaged if we do not 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. 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 U.S. and foreign jurisdiction laws and regulations designed to protect this information, such as various U.S. federal and state laws governing the protection of individually 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, 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, legal liability, and damage to our reputation.

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 American interests abroad.

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

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

Approximately 16% 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:

- general economic and political conditions;
- our ability to differentiate, and/or clearly convey the value of, our services;
- the pricing practices of our competitors, including the aggressive use by our competitors of offshore resources to provide lower-cost service delivery capabilities, or the introduction of new services or products by our competitors;
- our clients' desire to reduce their costs;
- our ability to charge higher prices where market demand or the value of our services justifies it;
- our ability to accurately estimate, attain, and sustain contract revenues, margins, and cash flows over long contract periods; and
- procurement practices of clients and their use of third-party advisors.

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 our projects and the marketplace, which might be based on limited data and could turn out to be inaccurate. If we do not accurately estimate the costs and timing for completing projects, our contracts could prove unprofitable for us or yield lower profit margins than anticipated. We could face greater risk when negotiating fees for our contracts that 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.

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

Our technology solutions are often critical to the operation of our customers' businesses and provide benefits that may be difficult to quantify. If one of our customers' systems fails, the customer could make a claim for substantial

damages against us, regardless of our responsibility for that failure. The limitations of liability set forth in our contracts may not be enforceable in all instances and may not otherwise protect us from liability for damages. Our insurance coverage may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims. In addition, a given insurer might disclaim coverage as to any future claims. Due to the nature of our business, it is possible that we will be sued in the future. If we experience one or more large claims against us that exceed available insurance coverage or result in changes in our insurance policies, including premium increases, the imposition of large deductible, or co-insurance requirements, our business and financial results could suffer.

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.

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

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

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

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

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

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

Our services are marketed to clients and prospective clients based on a number of factors. Our corporate reputation is a significant factor in our clients' evaluation of whether to engage our services. 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, 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 efforts with regard to the recruitment and retention of employees and subcontractors. 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.

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

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

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

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

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

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

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

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

We have continued our disciplined acquisition strategy designed to enhance our capabilities, expand in emerging markets or develop new services and solutions. 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. 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 employees of those businesses into our culture and operations.

Accordingly, 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 may lose money. 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.

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

Our ability to control our costs and improve our efficiency affects our profitability. Since the continuation of pricing pressures could result in permanent changes in pricing policies and delivery capabilities, we must continuously improve our management of costs. Our short-term cost reduction initiatives, which focus primarily on reducing variable costs, might not be sufficient to deal with all pressures on our pricing. Our long-term cost-reduction

initiatives, which focus on reductions in costs for service delivery and infrastructure, rely upon our successful introduction and coordination of multiple geographic and competency workforces and a growing focus on our offshore capabilities. As we increase the number of our colleagues and execute our strategies for growth, we might not be able to manage significantly larger and more diverse workforces, control our costs or improve our efficiency, and our profitability could be negatively affected.

Many of our contracts include performance payments that link some of our fees to the attainment of performance or business targets. This could increase the variability of our revenues and margins.

Many of our contracts include performance clauses that require us to achieve agreed-upon performance standards or milestones. If we fail to satisfy these measures, it could reduce our fees under the contracts, increase the cost to us of meeting performance standards or milestones, delay expected payments or subject us to potential damage claims under the contract terms. These provisions could increase the variability in revenues and margins earned on those contracts.

Changes in our level of taxes, and tax audits, investigations and 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 judgment is required in determining our corporate provision for income taxes and other tax liabilities. We are subject to ongoing tax audits in various jurisdictions. Tax authorities may disagree with our judgments. We regularly assess the likely outcomes of these audits in order 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. Furthermore, 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. In limited circumstances, we also extend financing to our clients. We maintain allowances against 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. There is no guarantee that we will accurately assess the creditworthiness of our clients. Macroeconomic conditions could also result in financial difficulties for our clients, and as a result 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, financial condition, 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 quarterly operating results may be volatile and may cause our stock price to fluctuate.

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

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

As a result, if we experience unanticipated changes in the number or nature of our projects or in our employee utilization rates, we could experience large variations in quarterly operating results.

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

We may experience seasonal fluctuations in our services and software revenues. We expect that services revenues in the fourth quarter of a given year may typically be lower as there are fewer billable days as a result of vacations and holidays. Our software revenues may be higher in the fourth quarter of a given year as procurement policies of our clients may result in higher technology spending towards the end of budget cycles. While we seek to counterbalance periodic fluctuations in revenues, we may not be able to avoid declines in services revenues or increases in software revenues. Our inability to counterbalance these seasonal trends may materially affect our quarter-to-quarter revenues, margins and operating results.

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

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

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

We may not be able to maintain profitability.

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

Risks Related to Ownership of Our Common Stock

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

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

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

stock.

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 24% of the voting power of our common stock. This concentration of voting power of our common stock may make it difficult for our other stockholders to successfully approve or defeat matters that may be submitted for action by our stockholders. It may also have the effect of delaying, deterring, or preventing a change in control of our company.

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

We had unrestricted cash, cash equivalents, and investments totaling \$9.7 million and a borrowing capacity of \$50 million, and a commitment to increase our borrowing capacity by \$25 million, at December 31, 2011. 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.

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 Unresolved Staff Comments.

1B.

None.

Item 2. Properties.

Our principal executive operations are located in St. Louis, Missouri where we have leased approximately 5,100 square feet for these functions. We lease 26 offices in major markets throughout North America, China, and India. We do not own any real property. We believe our facilities are adequate to meet our needs in the near future.

Item 3. Legal Proceedings.

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 our company.

Item 4. Reserved.

13

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, 2010.

	High	Low
Year Ending December 31, 2011:		
First Quarter	\$ 13.16	\$ 10.68
Second Quarter	12.76	9.22
Third Quarter	11.32	7.09
Fourth Quarter	10.32	6.41
Year Ending December 31, 2010:		
First Quarter	\$ 12.01	\$ 8.50
Second Quarter	12.99	8.91
Third Quarter	9.71	8.21
Fourth Quarter	13.00	9.17

On February 27, 2012, the last reported sale price of our common stock on The Nasdaq Global Select Market was \$12.06 per share. There were approximately 323 stockholders of record of our common stock as of February 27, 2012, including 205 restricted account holders.

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

Information on our Equity Compensation Plan has been included at Part III, Item 11 of this Form 10-K.

Unregistered Sales of Securities

Our acquisition of speakTECH in December 2010 included an earnings-based contingency, pursuant to which additional consideration could be realized by speakTECH if certain earnings-based requirements were met. This contingency was achieved during 2011 and, as such, we paid the additional consideration on December 10, 2011. In connection with this payment, we issued 383,101 unregistered shares of our common stock to speakTECH. We relied on Section 4(2) and Regulation D of the Securities Act of 1933, as amended, as the basis for exemption from registration. These shares were issued to speakTECH in a privately negotiated transaction and not pursuant to a public solicitation.

Issuer Purchases of Equity Securities

Prior to 2011, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock. In 2011, the Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$60.0 million at December 31, 2011. The repurchase program expires June 30, 2012. The

Edgar Filing: PERFICIENT INC - Form 10-K

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.

Since the program's inception in 2008, we have repurchased approximately \$54.0 million of our outstanding common stock through December 31, 2011.

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, 2011	7,097,567	\$ 7.29	7,097,567	\$ 8,271,213
October 1-31, 2011	--	--	--	\$ 8,271,213
November 1-30, 2011	55,000	9.36	55,000	\$ 7,756,483
December 1-31, 2011	215,000	8.15	215,000	\$ 6,004,112
Ending Balance as of December 31, 2011	7,367,567	\$ 7.33	7,367,567	

(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, 2011, 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 two acquisitions in each of 2011 and in 2010 and four acquisitions in 2007.

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,				
	2011	2010	2009	2008	2007
	(In thousands)				
Income Statement Data:					
Revenues	\$ 262,439	\$ 214,952	\$ 188,150	\$ 231,488	\$ 218,148
Gross margin	\$ 81,134	\$ 62,767	\$ 48,333	\$ 73,502	\$ 75,690
Selling, general and administrative	\$ 51,672	\$ 45,477	\$ 40,042	\$ 47,242	\$ 41,963
Depreciation and amortization	\$ 8,095	\$ 4,784	\$ 5,750	\$ 6,949	\$ 6,265
Acquisition costs	\$ 1,249	\$ 993	\$ --	\$ --	\$ --
Adjustment to fair value of contingent consideration	\$ 1,586	\$ (4)	\$ --	\$ --	\$ --
Impairment of intangible assets	\$ --	\$ --	\$ --	\$ 1,633	\$ --
Income from operations	\$ 18,532	\$ 11,517	\$ 2,541	\$ 17,678	\$ 27,462
Net interest income	\$ 68	\$ 163	\$ 209	\$ 528	\$ 172
Net other income (expense)	\$ 45	\$ 68	\$ 260	\$ (915)	\$ 20
Income before income taxes	\$ 18,645	\$ 11,748	\$ 3,010	\$ 17,291	\$ 27,654
Net income	\$ 10,747	\$ 6,480	\$ 1,463	\$ 10,000	\$ 16,230

	As of December 31,				
	2011	2010	2009	2008	2007
	(In thousands)				
Balance Sheet Data:					
Cash, cash equivalents, and short-term investments	\$ 9,732	\$ 24,008	\$ 24,302	\$ 22,909	\$ 8,070
Working capital	\$ 51,476	\$ 47,632	\$ 50,205	\$ 56,176	\$ 41,368
Long-term investments	\$ --	\$ 2,254	\$ 3,652	\$ --	\$ --
Property and equipment, net	\$ 3,490	\$ 2,355	\$ 1,278	\$ 2,345	\$ 3,226
Goodwill and intangible assets, net	\$ 142,166	\$ 124,056	\$ 111,773	\$ 115,634	\$ 121,339
Total assets	\$ 223,932	\$ 207,678	\$ 184,810	\$ 194,247	\$ 189,992
Total stockholders' equity	\$ 198,959	\$ 177,164	\$ 168,348	\$ 174,818	\$ 165,562

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

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this annual report and in the documents that we incorporate by reference into this annual report. This annual report may contain certain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and

uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in “Risk Factors.”

Overview

We are an information technology consulting firm serving Forbes Global 2000 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.

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 11% of our services revenues for the year ended December 31, 2011 compared to 13% and 11% for the years ended December 31, 2010 and 2009, respectively. 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 has fair value evidence for each deliverable. If management concluded 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 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 a 10 to 30 day 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.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses (“SG&A”) are primarily composed of sales-related costs, general and administrative salaries, stock compensation expense, recruiting expense, office costs, bad debts, variable compensation cost, 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 have resumed our disciplined acquisition strategy as evidenced by our acquisition 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 and PointBridge Solutions, LLC in February 2012. We also intend to further leverage our existing offshore capabilities to support our future growth and provide our clients flexible options for project delivery.

Results of Operations

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

Revenues:	2011	2010	2009
Services revenues	88.8%	86.1%	88.4%
Software and hardware revenues	6.0	9.6	6.9
Reimbursable expenses	5.2	4.3	4.7
Total revenues	100.0	100.0	100.0
Cost of revenues (depreciation and amortization, shown separately below):			
Project personnel costs	56.9	55.5	61.0
Software and hardware costs	5.2	8.4	6.2
Reimbursable expenses	5.2	4.3	4.7
Other project related expenses	1.8	2.6	2.4
Total cost of revenues	69.1	70.8	74.3
Services gross margin	33.9	32.6	28.2
Software and hardware gross margin	13.5	11.9	10.2
Total gross margin	30.9	29.2	25.7
Selling, general and administrative	19.7	21.2	21.3
Depreciation and amortization	3.1	2.2	3.0
Acquisition costs	0.5	0.5	0.0
Adjustment to fair value of contingent consideration	0.5	0.0	0.0
Income from operations	7.1	5.3	1.4

Edgar Filing: PERFICIENT INC - Form 10-K

Net interest income	0.0	0.1	0.1
Net other income	0.0	0.0	0.1
Income before income taxes	7.1	5.4	1.6
Provision for income taxes	3.0	2.5	0.8
Net income	4.1%	2.9%	0.8%

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Revenues. Total revenues increased 22% to \$262.4 million for the year ended December 31, 2011 from \$215.0 million for the year ended December 31, 2010.

	Financial Results (in thousands)			Explanation for Increases Over Prior Year Period (in thousands)	
	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	Total Increase/ (Decrease) Over Prior Year Period	Increase Attributable to Acquired Companies*	Increase/ (Decrease) Attributable to Base Business**
Services Revenues	\$ 233,166	\$ 185,173	\$ 47,993	\$ 38,014	\$ 9,979
Software and Hardware Revenues	15,624	20,556	(4,932)	26	(4,958)
Reimbursable Expenses	13,649	9,223	4,426	931	3,495
Total Revenues	\$ 262,439	\$ 214,952	\$ 47,487	\$ 38,971	\$ 8,516

* Defined as revenues generated by professionals from companies acquired during 2010 and 2011.

**Defined as businesses owned as of January 1, 2010.

Services revenues increased 26% to \$233.2 million for the year ended December 31, 2011 from \$185.2 million for the year ended December 31, 2010. The increase in services revenues is primarily due to acquisitions during 2010 and 2011. Services revenues attributable to our base business increased \$10.0 million while services revenues attributable to acquired companies increased \$38.0 million, resulting in a total increase of \$48.0 million.

Software and hardware revenues decreased 24% to \$15.6 million for the year ended December 31, 2011 from \$20.6 million for the year ended December 31, 2010 due to the decrease in the volume and magnitude of software renewals as compared to 2010. Reimbursable expenses increased 48% to \$13.6 million for the year ended December 31, 2011 from \$9.2 million for the year ended December 31, 2010 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 19% to \$181.3 million for the year ended December 31, 2011 from \$152.2 million for the year ended December 31, 2010. 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 1,317 for the year ended December 31, 2011 from 1,065 for the year ended December 31, 2010.

Gross Margin. Gross margin increased 29% to \$81.1 million for the year ended December 31, 2011 from \$62.8 million for the year ended December 31, 2010. Gross margin as a percentage of revenues increased to 30.9% for the year ended December 31, 2011 from 29.2% for the year ended December 31, 2010, primarily due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 33.9% or \$79.0 million for the year ended December 31, 2011 from 32.6% or \$60.3 million for the year ended December 31, 2010. 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 \$116 per hour for the year ended December 31, 2011 from \$106 per hour for the year ended December 31, 2010, 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, 2011, excluding China, was

Edgar Filing: PERFICIENT INC - Form 10-K

\$125 per hour compared to \$119 per hour for the year ended December 31, 2010.

Selling, General and Administrative. SG&A expenses increased 14% to \$51.7 million for the year ended December 31, 2011 from \$45.5 million for the year ended December 31, 2010 due primarily to fluctuations in expenses as detailed in the following table:

	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010	Increase / (Decrease)
Selling, General and Administrative Expense (in millions)			
Sales-related costs	\$14.9	\$11.9	\$3.0
Salary expense	11.3	9.2	2.1
Stock compensation expense	6.9	8.6	(1.7)
Recruiting expense	3.9	2.3	1.6
Bad debt expense	1.0	--	1.0
Variable compensation expense	0.7	2.3	(1.6)
Other	13.0	11.2	1.8
Total	\$51.7	\$45.5	\$6.2

SG&A expenses, as a percentage of revenues, decreased slightly to 19.7% for the year ended December 31, 2011 from 21.2% for the year ended December 31, 2010. Bonus expense decreased as a percentage of revenues compared to the prior year period as a result of more aggressive bonus targets in 2011. Stock compensation expense decreased as a percentage of revenues due to less expense recorded in 2011 as a result of the separation of our former Chairman of the Board of Directors in the fourth quarter 2010. These decreases were offset by an increase in recruiting and bad debt expense as a percentage of revenues, which were directly related to the increase in headcount and sales, respectively.

Depreciation. Depreciation expense increased 111% to \$1.8 million for the year ended December 31, 2011 from \$0.8 million for the year ended December 31, 2010. The increase in depreciation expense was mainly attributable to increased capital expenditures during 2010 and 2011 and the increase in leasehold improvements related to the expansion of our facility in China. Depreciation expense as a percentage of services revenue, excluding reimbursable expenses, was 0.8% and 0.4% for the year ended December 31, 2011 and 2010, respectively.

Amortization. Amortization expense increased 60% to \$6.3 million for the year ended December 31, 2011 from \$4.0 million for the year ended December 31, 2010. The increase in amortization expense was due to the addition of intangible assets acquired as a result of the Company's acquisition activity during 2010 and 2011.

Acquisition Costs. Acquisition-related costs of \$1.2 million were incurred during 2011 related to the acquisition of Exervio and JCB compared to \$1.0 million during 2010 related to the acquisition of Kerdock and speakTECH. 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 \$1.6 million was made during the year ended December 31, 2011 for the accretion of the fair value estimate for the earnings-based contingent consideration 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 42.4% for the year ended December 31, 2011 from 44.8% for the year ended December 31, 2010. The decrease in the effective rate was due primarily to the effect of state taxes and permanent items over a larger income base and lower non-deductible stock compensation.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenues. Total revenues increased 14% to \$215.0 million for the year ended December 31, 2010 from \$188.2 million for the year ended December 31, 2009.

	Financial Results (in thousands)			Explanation for Increases Over Prior Year Period (in thousands)	
	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	Total Increase Over Prior Year Period	Increase Attributable to Acquired Companies*	Increase Attributable to Base Business**
Services Revenues	\$ 185,173	\$ 166,397	\$ 18,776	\$ 7,956	\$ 10,820
Software and Hardware Revenues	20,556	12,968	7,588	1,667	5,921
Reimbursable Expenses	9,223	8,785	438	470	(32)

Edgar Filing: PERFICIENT INC - Form 10-K

Total Revenues	\$	214,952	\$	188,150	\$	26,802	\$	10,093	\$	16,709
----------------	----	---------	----	---------	----	--------	----	--------	----	--------

*Defined as companies acquired during 2010; no companies were acquired in 2009.

**Defined as businesses owned as of January 1, 2010.

Services revenues increased 11% to \$185.2 million for the year ended December 31, 2010 from \$166.4 million for the year ended December 31, 2009. The increase in services revenues was due to an increase in demand for our services and the acquisition of Kerdock and speakTECH. Services revenues attributable to our base business increased \$10.8 million while services revenues attributable to acquired companies increased \$8.0 million, resulting in a total increase of \$18.8 million.

Software and hardware revenues increased 59% to \$20.6 million for the year ended December 31, 2010 from \$13.0 million for the year ended December 31, 2009 due to an increase in the sale of new software licenses and renewals of software licenses. Reimbursable expenses increased 5% to \$9.2 million for the year ended December 31, 2010 from \$8.8 million for the year ended December 31, 2009 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 9% to \$152.2 million for the year ended December 31, 2010 from \$139.8 million for the year ended December 31, 2009. The increase in cost of revenues was directly related to the increase in revenues, specifically the increase in services revenues. The average number of colleagues performing services, including subcontractors, increased to 1,065 for the year ended December 31, 2010 from 1,028 for the year ended December 31, 2009. Management will continue to manage the cost structure to match demand.

Gross Margin. Gross margin increased 30% to \$62.8 million for the year ended December 31, 2010 from \$48.3 million for the year ended December 31, 2009. Gross margin as a percentage of revenues increased to 29.2% for the year ended December 31, 2010 from 25.7% for the year ended December 31, 2009 primarily due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 32.6% or \$60.3 million for the year ended December 31, 2010 from 28.2% or \$47.0 million for the year ended December 31, 2009. The increase in services gross margin was primarily a result of higher utilization and management's continued efforts to manage the cost structure. The average utilization rate of our colleagues, excluding subcontractors, increased to 81% for the year ended December 31, 2010 compared to 75% for the year ended December 31, 2009. The average bill rate for our colleagues, excluding subcontractors, remained flat at \$106 per hour for the year ended December 31, 2010 compared to the year ended December 31, 2009. The average bill rate for our colleagues, excluding subcontractors and offshore employees, increased to \$119 for the year ended December 31, 2010 from \$114 for the year ended December 31, 2009. Software and hardware gross margin increased to 11.9% or \$2.4 million for the year ended December 31, 2010 from 10.2% or \$1.3 million for the year ended December 31, 2009. The increase in software and hardware margin was directly related to the increase in higher margin software and hardware sales during 2010.

Selling, General and Administrative. SG&A expenses increased 14% to \$45.5 million for the year ended December 31, 2010 from \$40.0 million for the year ended December 31, 2009 due primarily to fluctuations in expenses as detailed in the following table:

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	Increase
Selling, General and Administrative Expense (in millions)			
Sales-related costs	\$11.9	\$11.6	\$0.3
Salary expense	9.2	8.8	0.4
Stock compensation expense	8.6	7.1	1.5
Recruiting expense	2.3	1.8	0.5
Variable compensation expense	2.3	0.4	1.9
Bad debt expense	--	(0.5)	0.5
Other	11.2	10.8	0.4
Total	\$45.5	\$40.0	\$5.5

SG&A expenses, as a percentage of revenues, decreased slightly to 21.2% for the year ended December 31, 2010 from 21.3% for the year ended December 31, 2009. Bonus and stock compensation expense increased as a percentage of revenues compared to the prior year period as a result of achieving the company-wide performance goals and the separation of the Chairman of the Board, respectively. These increases were offset by a decrease in sales-related costs and salary expenses as a percentage of revenues. These decreases were primarily related to management's continued efforts to manage the cost structure.

Depreciation. Depreciation expense decreased 44% to \$0.8 million for the year ended December 31, 2010 from \$1.5 million for the year ended December 31, 2009. The decrease in depreciation expense was mainly attributable to various assets becoming fully depreciated and the modification of the estimated useful life of computer hardware from two to three years in first quarter of 2010. Depreciation expense as a percentage of services revenue, excluding

reimbursable expenses, was 0.4% and 0.9% for the year ended December 31, 2010 and 2009, respectively.

Amortization. Amortization expense decreased 7% to \$4.0 million for the year ended December 31, 2010 from \$4.3 million for the year ended December 31, 2009 due to the completion of amortization of certain acquired intangible assets during 2009 and 2010, partially offset by the addition of amortization related to acquired intangible assets.

Acquisition Costs. Acquisition-related costs of \$1.0 million were incurred during 2010 related to the acquisition of Kerdock and speakTECH. Acquisition-related costs were incurred for legal, accounting, and valuation services performed by third parties.

Net Interest Income. We had interest income of \$163,000, net of interest expense, for the year ended December 31, 2010, compared to interest income of \$209,000, net of interest expense, for the year ended December 31, 2009. Net interest income in 2009 included interest received on the outstanding balance of a client note receivable.

Net Other Income or Expense. We had other income of \$72,000, net of other expense, for the year ended December 31, 2010 compared to other income of \$260,000, net of other expense, for the year ended December 31, 2009. Net other income during 2009 was primarily related to government incentives received by our China operations.

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 44.8% for the year ended December 31, 2010 from 51.4% for the year ended December 31, 2009. The decrease in the effective rate was due primarily to the effect of state taxes and permanent items over a larger income base and larger earnings in certain nontaxable foreign jurisdictions.

Liquidity and Capital Resources

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

	As of December 31,		
	2011	2010	2009
Cash, cash equivalents, and investments	\$ 9.7	\$ 26.3	\$ 28.0
Working capital (including cash and cash equivalents)	\$ 51.5	\$ 47.6	\$ 50.2
Amounts available under credit facilities	\$ 50.0	\$ 50.0	\$ 50.0

Net Cash Provided By Operating Activities

Net cash provided by operating activities for the year ended December 31, 2011 was \$14.3 million compared to \$18.7 million and \$22.6 million for the years ended December 31, 2010 and 2009, respectively. For the year ended December 31, 2011, the components of operating cash flows 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. The primary components of operating cash flow for the year ended December 31, 2010 were net income of \$6.5 million plus non-cash charges of \$14.3 million, partially offset by investments in working capital of \$2.1 million. The primary components of operating cash flows for the year ended December 31, 2009 were net income of \$1.5 million plus non-cash charges of \$15.0 million and net working capital reductions of \$6.1 million. The decrease in cash resulting from operating activities as of December 31, 2011 is primarily related to the decrease in accounts payable and other liabilities and the increase in accounts receivable. Accounts payable and other liabilities decreased due to paying down higher accrued software costs and variable compensation liabilities during 2011. Our days sales outstanding as of December 31, 2011 increased to 78 days compared to 73 days at December 31, 2010 and 2009. Days sales outstanding have increased as of December 31, 2011 due to slower paying customers, partially related to new customers both from existing lines of business and acquisitions made during 2010 and 2011.

Net Cash Used in Investing Activities

For the year ended December 31, 2011, we used \$19.4 million for the purchase of businesses and acquisition-related costs, \$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. For the year ended December 31, 2010, we used \$4.3 million in cash to purchase investments, \$4.9 million for the purchase of Kerdock and speakTECH, and \$1.3 million in cash to purchase equipment and develop software. For the year ended December 31, 2009, we used \$10.0 million in cash to purchase investments and \$0.7 million in cash to purchase equipment and develop software.

Net Cash Provided By Financing Activities

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. During the year ended December 31, 2010, we received proceeds of \$1.5 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized an excess tax benefit of \$1.5 million related to vesting of stock awards and stock option exercises. We used \$1.9 million to settle the contingent consideration for the purchase of Kerdock and \$14.7 million to repurchase shares of our common stock through the stock repurchase program. For the year ended December 31, 2009, we received proceeds of \$1.0 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized an excess tax benefit of \$0.6 million related to vesting of stock awards and stock option exercises. We used \$18.4 million to repurchase shares of our common stock through the stock repurchase program.

Availability of Funds from Bank Line of Credit Facilities

On May 23, 2011, 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 \$50.0 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 \$500,000 at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. Substantially all of our assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015. Borrowings under the credit facility bear interest at our option of SVB's prime rate (4.00% on December 31, 2011) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.295% on December 31, 2011) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of December 31, 2011, we had \$50.0 million of maximum borrowing capacity. We incur an annual commitment fee of 0.30% on the unused portion of the line of credit.

As of December 31, 2011, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months.

Stock Repurchase Program

Prior to 2011, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock. In 2011, the Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$60.0 million at December 31, 2011. The repurchase program expires June 30, 2012.

We established written trading plans in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Exchange Act"), under which we made 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 \$54.0 million of our outstanding common stock through December 31, 2011.

Lease Obligations

There were no material changes outside the ordinary course of business in lease obligations or other contractual obligations in 2011 as disclosed in Note 12, Commitments and Contingencies, in the Notes to Consolidated Financial Statements.

Contractual Obligations

We have incurred commitments to make future payments under contracts such as leases. Maturities under these contracts are set forth in the following table as of December 31, 2011 (in thousands):

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations					
Operating lease obligations	\$ 10,254	\$ 2,458	\$ 4,387	\$ 2,851	\$ 558
Total	\$ 10,254	\$ 2,458	\$ 4,387	\$ 2,851	\$ 558

Conclusion

If our capital is insufficient to fund our activities in either the short- or long-term, we may need to raise additional funds. In the ordinary course of business, we may engage in discussions with various persons in connection with additional financing. If we raise additional funds through the issuance of equity securities, our existing stockholders'

percentage ownership will be diluted. These equity securities may also have rights superior to our common stock. Additional debt or equity financing may not be available when needed or on satisfactory terms. If adequate funds are not available on acceptable terms, we may be unable to expand our services, respond to competition, pursue acquisition opportunities, or continue our operations.

We believe that the 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 twelve months.

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 ASC Subtopic 985-605, Software – Revenue Recognition (“ASC Subtopic 985-605”), 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 a 10 to 30 day 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.

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. As required by ASC Topic 350, the impairment test is accomplished using a two-step approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment.

Our annual goodwill impairment test was performed as of October 1, 2011. 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, and internally developed software, which are being amortized over the assets’ estimated useful lives using the straight-line method. Estimated useful lives range from one to eight years. Amortization of customer relationships, non-compete arrangements, trade name, and internally developed software is considered an operating expense and is included in “Amortization” in the accompanying Condensed 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 twelve months of the acquisition date as certain initial accounting valuation estimates are finalized.

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

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

Recent Accounting Pronouncements

Our recent 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.

Quantitative and Qualitative Disclosures About Market Risk.

7A.

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, 2011, 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

We had unrestricted cash, cash equivalents, and investments totaling \$9.7 million at December 31, 2011 and \$26.3 million at December 31, 2010. 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.

Item 8. Financial Statements and Supplementary Data.

PERFICIENT, INC.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2011 AND 2010

	December 31,	
	2011	2010
	(In thousands, except share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 9,732	\$ 12,707
Short-term investments	--	11,301
Total cash, cash equivalents, and short-term investments	9,732	24,008
Accounts receivable, net of allowance for doubtful accounts of \$1,057 in 2011 and \$228 in 2010	60,892	48,496
Prepaid expenses	1,246	1,270
Other current assets	3,118	2,584
Total current assets	74,988	76,358
Long-term investments	--	2,254
Property and equipment, net	3,490	2,355
Goodwill	132,038	115,227
Intangible assets, net	10,128	8,829
Other non-current assets	3,288	2,655
Total assets	\$ 223,932	\$ 207,678
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,029	\$ 6,072
Other current liabilities	18,483	22,654
Total current liabilities	23,512	28,726
Other non-current liabilities	1,461	1,788
Total liabilities	\$ 24,973	\$ 30,514
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Common stock (\$0.001 par value per share; 50,000,000 shares authorized and 36,217,914 shares issued and 28,742,906 shares outstanding as of December 31, 2011; 33,373,410 shares issued and 27,275,936 shares outstanding as of December 31, 2010)	\$ 36	\$ 33
Additional paid-in capital	248,855	224,966
Accumulated other comprehensive loss	(279)	(225)
Treasury stock, at cost (7,475,008 shares as of December 31, 2011; 6,097,474 shares as of December 31, 2010)	(54,995)	(42,205)
Retained earnings (deficit)	5,342	(5,405)
Total stockholders' equity	198,959	177,164
Total liabilities and stockholders' equity	\$ 223,932	\$ 207,678

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except share and per share information)		
Revenues:			
Services	\$ 233,166	\$ 185,173	\$ 166,397
Software and hardware	15,624	20,556	12,968
Reimbursable expenses	13,649	9,223	8,785
Total revenues	262,439	214,952	188,150
Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	149,243	119,304	114,877
Software and hardware costs	13,521	18,108	11,641
Reimbursable expenses	13,649	9,223	8,785
Other project related expenses	4,892	5,550	4,514
Total cost of revenues	181,305	152,185	139,817
Gross margin	81,134	62,767	48,333
Selling, general and administrative	51,672	45,477	40,042
Depreciation	1,754	830	1,483
Amortization	6,341	3,954	4,267
Acquisition costs	1,249	993	--
Adjustment to fair value of contingent consideration	1,586	(4)	--
Income from operations	18,532	11,517	2,541
Net interest income	68	163	209
Net other income	45	68	260
Income before income taxes	18,645	11,748	3,010
Provision for income taxes	7,898	5,268	1,547
Net income	\$ 10,747	\$ 6,480	\$ 1,463
Basic net income per share	\$ 0.39	\$ 0.24	\$ 0.05
Diluted net income per share	\$ 0.37	\$ 0.23	\$ 0.05
Shares used in computing basic net income per share	27,745,312	26,856,481	27,538,300
Shares used in computing diluted net income per share	29,184,286	28,303,547	28,558,160

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(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, 2008	28,502	\$30	\$197,653	\$ (338)	\$(9,179)	\$(13,348)	\$ 174,818
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	298	1	974	--	--	--	975
Net tax shortfall from stock option exercises and restricted stock vesting	--	--	(459)	--	--	--	(459)
Stock compensation related to restricted stock vesting and retirement savings plan contributions	973	1	9,835	--	--	--	9,836
Purchases of treasury stock	(2,690)	--	--	--	(18,350)	--	(18,350)
Net unrealized loss on investments	--	--	--	(5)	--	--	(5)
Foreign currency translation adjustment	--	--	--	70	--	--	70
Net income	--	--	--	--	--	1,463	1,463
Total comprehensive income	--	--	--	--	--	--	1,528
Balance at December 31, 2009	27,083	\$32	\$208,003	\$ (273)	\$(27,529)	\$(11,885)	\$ 168,348
	381	--	1,468	--	--	--	1,468

Edgar Filing: PERFICIENT INC - Form 10-K

Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan							
Net tax benefit from stock option exercises and restricted stock vesting	--	--	1,038	--	--	--	1,038
Stock compensation related to restricted stock vesting and retirement savings plan contributions	920	1	10,830	--	--	--	10,831
Purchases of treasury stock	(1,559)	--	--	--	(14,676)	--	(14,676)
Issuance of stock for acquisitions	451	--	3,627	--	--	--	3,627
Net unrealized gain on investments	--	--	--	25	--	--	25
Foreign currency translation adjustment	--	--	--	23	--	--	23
Net income	--	--	--	--	--	6,480	6,480
Total comprehensive income	--	--	--	--	--	--	6,528
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	929	1	9,177	--	--	--	9,178

Edgar Filing: PERFICIENT INC - Form 10-K

restricted stock vesting and retirement savings plan contributions								
Purchases of treasury stock	(1,378)	--	--	--	(12,790)	--	(12,790)	
Issuance of stock for acquisitions	1,102	1	9,782	--	--	--	9,783	
Net unrealized loss on investments	--	--	--	(19)	--	--	(19)	
Foreign currency translation adjustment	--	--	--	(35)	--	--	(35)	
Net income	--	--	--	--	--	10,747	10,747	
Total comprehensive income	--	--	--	--	--	--	10,693	
Balance at December 31, 2011	28,743	\$36	\$248,855	\$ (279)	\$(54,995)	\$5,342	\$ 198,959	

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
OPERATING ACTIVITIES			
Net income	\$ 10,747	\$ 6,480	\$ 1,463
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	1,754	830	1,483
Amortization	6,341	3,954	4,267
Deferred income taxes	531	205	(18)
Non-cash stock compensation and retirement savings plan contributions	9,178	10,831	9,836
Tax benefit from stock option exercises and restricted stock vesting	(1,838)	(1,531)	(583)
Adjustment to fair value of contingent consideration for purchase of business	1,586	(4)	--
Changes in operating assets and liabilities, net of acquisitions:			
Accounts and note receivable	(7,587)	(5,491)	9,427
Other assets	(320)	1,626	(342)
Accounts payable	(1,522)	642	(884)
Other liabilities	(4,550)	1,189	(2,086)
Net cash provided by operating activities	14,320	18,731	22,563
INVESTING ACTIVITIES			
Proceeds from sales and maturity of investments	13,555	--	--
Purchase of investments	--	(4,252)	(9,984)
Purchase of property and equipment	(2,776)	(1,161)	(415)
Capitalization of software developed for internal use	(179)	(160)	(311)
Purchase of businesses	(19,385)	(4,941)	--
Net cash used in investing activities	(8,785)	(10,514)	(10,710)
FINANCING ACTIVITIES			
Proceeds from short-term borrowings	14,000	--	--
Payments on short-term borrowings	(14,000)	--	--
Payments for credit facility financing fees	(306)	--	--
Payment of contingent consideration for purchase of business	(1,244)	(1,875)	--
Tax benefit from stock option exercises and restricted stock vesting	1,838	1,531	583
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	3,712	1,468	975
Purchases of treasury stock	(11,791)	(14,676)	(18,350)
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(747)	--	--
Net cash used in financing activities	(8,538)	(13,552)	(16,792)
Effect of exchange rate on cash and cash equivalents	28	67	5
Change in cash and cash equivalents	(2,975)	(5,268)	(4,934)

Edgar Filing: PERFICIENT INC - Form 10-K

Cash and cash equivalents at beginning of period	12,707	17,975	22,909
Cash and cash equivalents at end of period	\$ 9,732	\$ 12,707	\$ 17,975
Supplemental disclosures:			
Cash paid for interest	\$ 5	\$ 22	\$ 50
Cash paid for income taxes	\$ 7,810	\$ 4,265	\$ 1,831
Non-cash activities:			
Stock issued for purchase of businesses (net of stock reacquired for escrow claim)	\$ 6,616	\$ 2,859	\$ --
Stock issued for settlement of contingent consideration for purchase of business	\$ 2,915	\$ 768	\$ --
Estimated fair value of contingent consideration for purchase of business	\$ 2,377	\$ 3,339	\$ --

See accompanying notes to consolidated financial statements.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011

1. Description of Business and Principles of Consolidation

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

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

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 the Company is also reimbursed for out-of-pocket expenses such as airfare, lodging, and meals. These reimbursements are included as a component of revenues. Revenues from software and hardware sales are generally recorded on a gross basis considering the Company’s role as a principal in the transaction. On rare occasions, the Company enters into a transaction where it is not the principal. In these cases, revenue is recorded on a net basis.

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 the Company verifies 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. The Company's policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same customer is in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 985-605, Software – Revenue Recognition ("ASC Subtopic 985-605"), ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements, and ASC Section 605-10-S99 (Staff Accounting Bulletin Topic 13, Revenue Recognition). Specifically, if the Company enters into contracts for the sale of services and software or hardware, then the Company 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 the control of the Company (only if the arrangement includes a general right of return related to the delivered item). Further, for sales of software and services, the Company also evaluates whether the services are essential to the functionality of the software and if it has fair value evidence for each deliverable. If the Company has concluded 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 the Company's 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, the Company generally recognizes software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

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 the Company's software and hardware sales. Contracts for professional services provide for a general right, to the client or the Company, to cancel or terminate the contract within a given period of time (generally a 10 to 30 day notice is required). The client is responsible for any time and expenses incurred up to the date of cancellation or termination of the contract.

The Company may provide multiple services under the terms of an arrangement and is 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. The Company follows the guidelines discussed above in determining revenues; however, certain judgments and estimates are made and used to determine revenues recognized in any accounting period. If estimates are revised, material differences may result in the amount and timing of revenues recognized for a given period.

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

An 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.

Cash and Cash Equivalents

Cash equivalents consist primarily of cash deposits and investments with original maturities of 90 days or less when purchased.

Property and Equipment

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

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”), the Company performs an annual impairment test of goodwill. The Company evaluates goodwill as of October 1 each year and more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by ASC Topic 350, the impairment test is accomplished using a two-step approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment.

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

The Company will continue to monitor the trend of its stock price, other market indicators, and its operating results to determine whether there is a triggering event that may require the Company to perform an interim impairment test in the future and record impairment charges to earnings, which could adversely affect the Company's financial results.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

Income Taxes

The Company accounts for income taxes in accordance with ASC Subtopic 740-10, Income Taxes (“ASC Subtopic 740-10”), and ASC Section 740-10-25, Income Taxes – Recognition (“ASC Section 740-10-25”). ASC Subtopic 740-10 prescribes the use of the asset and liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are subject to tests of recoverability. A valuation allowance is provided for such deferred tax assets to the extent realization is not judged to be more likely than not. ASC Subtopic 740-10-25 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Subtopic 740-10-25 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions.

Earnings Per Share

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

Stock-Based Compensation

Stock-based compensation is accounted for in accordance with ASC Topic 718, Compensation – Stock Compensation (“ASC Topic 718”). Under this method, the Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to ASC Topic 718, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur.

Deferred Rent

Certain of the Company’s operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as accrued rent expense.

Fair Value of Financial Instruments

Cash equivalents, accounts receivable, accounts payable, other accrued liabilities, and debt are stated at amounts which approximate fair value due to the near term maturities of these instruments. Investments are stated at amounts which approximate fair value based on quoted market prices or other observable inputs.

Treasury Stock

The Company uses the cost method to account for repurchases of its own stock.

Segment Information

The Company operates as one reportable operating segment according to ASC Topic 280, Segment Reporting, which establishes standards for the way that business enterprises report information about operating segments. The chief operating decision maker formulates decisions about how to allocate resources and assess performance based on consolidated financial results. The Company also has one reporting unit for purposes of the goodwill impairment analysis discussed above.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

Recent Accounting Pronouncements

Effective January 1, 2011, the Company adopted ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements (“ASC Subtopic 605-25”). This statement is an amendment to the accounting standards related to the accounting for revenue in arrangements with multiple deliverables including how the arrangement consideration is allocated among delivered and undelivered items of the arrangement. Among the amendments, this standard eliminates the use of the residual method for allocating arrangement consideration and requires an entity to allocate the overall consideration to each deliverable based on an estimated selling price of each individual deliverable in the arrangement in the absence of having vendor-specific objective evidence or other third party evidence of fair value of the undelivered items. This standard also provides further guidance on how to determine a separate unit of accounting in a multiple-deliverable revenue arrangement and expands the disclosure requirements about the judgments made in applying the estimated selling price method and how those judgments affect the timing or amount of revenue recognition. The adoption of ASC Subtopic 605-25 did not have a material impact on the Company’s consolidated financial statements.

Effective January 1, 2011, the Company adopted ASC Subtopic 985-605, Software – Revenue Recognition. This standard clarifies the existing accounting guidance such that tangible products that contain both software and non-software components that function together to deliver the product’s essential functionality shall be excluded from the scope of the software revenue recognition accounting standards. Accordingly, sales of these products may fall within the scope of other revenue recognition accounting standards or may now be within the scope of this standard and may require an allocation of the arrangement consideration for each element of the arrangement. The adoption of ASC Subtopic 985-605 did not have a material impact on the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”). ASU 2011-05 requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, and the second statement would include components of other comprehensive income. This ASU does not change the items that must be reported in other comprehensive income. These provisions are effective prospectively for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. Although adopting ASU 2011-05 will not impact the accounting for comprehensive income, it will affect the presentation of components of comprehensive income by eliminating the practice of showing these items within the Consolidated Statements of Changes in Stockholders’ Equity.

In August 2011, the FASB issued ASU 2011-08, Intangibles – Goodwill and Other (“ASU 2011-08”). ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. These provisions are effective prospectively for fiscal years beginning after December 15, 2011 and for interim periods within those fiscal years. The adoption of ASU 2011-08 is not expected to have a material impact on the Company’s consolidated financial statements.

3. Net Income Per Share

Edgar Filing: PERFICIENT INC - Form 10-K

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

	Year Ended December 31,		
	2011	2010	2009
Net income	\$ 10,747	\$ 6,480	\$ 1,463
Basic:			
Weighted-average shares of common stock outstanding	27,745	26,856	27,538
Shares used in computing basic net income per share	27,745	26,856	27,538
Effect of dilutive securities:			
Stock options	279	659	610
Warrants (1)	5	7	6
Restricted stock subject to vesting	578	774	404
Contingently issuable shares (2)	222	--	--
Shares issuable for acquisition consideration (3)	355	8	--
Shares used in computing diluted net income per share (4)	29,184	28,304	28,558
Basic net income per share	\$ 0.39	\$ 0.24	\$ 0.05
Diluted net income per share	\$ 0.37	\$ 0.23	\$ 0.05

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

- (1) All outstanding warrants expired on December 30, 2011.
- (2) Represents the Company's estimate of shares to be issued to speakTECH pursuant to the Agreement and Plan of Merger and Exervio Consulting, Inc. ("Exervio") pursuant to the Asset Purchase Agreement. Refer to Note 7 for further discussion.
- (3) Represents the shares held in escrow pursuant to the Agreement and Plan of Merger with speakTECH and pursuant to the Asset Purchase Agreements with Exervio and JCB Partners, LLC ("JCB") as part of the consideration. These shares were not included in the calculation of basic net income per share due to the uncertainty of their ultimate status.
- (4) As of December 31, 2011, approximately 5,000 options for shares and 273,000 shares of restricted stock were excluded. These shares were excluded from shares used in computing diluted net income per share because they would have had an anti-dilutive effect.

4. Investments

The Company invests a portion of its excess cash in short-term and long-term investments. The short-term investments typically consist of U.S. treasury bills, U.S. agency bonds, and corporate bonds with original maturities greater than three months and remaining maturities of less than one year. The long-term investments typically consist of corporate bonds with original maturities of greater than one year.

During the second quarter 2011, the Company sold all of its short- and long-term investments to fund acquisition activity. The realized gains and losses for these investments were immaterial. As of December 31, 2011, the Company's investments consisted of cash equivalents with original maturities of less than three months.

5. Concentration of Credit Risk and Significant Customers

Cash and accounts receivable potentially expose the Company to concentrations of credit risk. Cash is placed with highly rated financial institutions. The Company provides credit, in the normal course of business, to its customers. The Company generally does not require collateral or up-front payments. The Company performs periodic credit evaluations of its customers and maintains allowances for potential credit losses. Customers can be denied access to services in the event of non-payment. During 2011, a substantial portion of the services the Company provided were built on IBM, Oracle, and Microsoft platforms, among others, and a significant number of the Company's clients are identified through joint selling opportunities conducted with and through sales leads obtained from the relationships with these vendors. Due to the Company's significant fixed operating expenses, the loss of sales to any significant customer could result in the Company's inability to generate net income or positive cash flow from operations for some time in the future. However, the Company has remained relatively diversified, with no one customer providing more than 10% of total revenues during 2011, 2010 or 2009.

6. Employee Benefit Plans

The Company has a qualified 401(k) profit sharing plan available to full-time employees who meet the plan's eligibility requirements. This defined contribution plan permits employees to make contributions up to maximum limits allowed by the Internal Revenue Code of 1986 (the "Code"). The Company, at its discretion, matches a portion of the employee's contribution under a predetermined formula based on the level of contribution and years of

service. For 2011, the Company made matching contributions of 50% (25% in cash and 25% in Company stock) of the first 6% of eligible compensation deferred by the participant. The Company recognized \$3.2 million, \$2.5 million, and \$2.6 million of expense for the matching cash and Company stock contribution in 2011, 2010, and 2009, respectively. All matching contributions vest over a three year period of service.

The Company has a deferred compensation plan for officers, directors, and certain sales personnel. The plan is designed to allow eligible participants to accumulate additional income through a nonqualified deferred compensation plan that enables them to make elective deferrals of compensation to which they will become entitled in the future. As of December 31, 2011, the deferred compensation liability balance was \$1.6 million compared to \$1.5 million as of December 31, 2010.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

7. Business Combinations

Acquisition of Kerdock Consulting, LLC (“Kerdock”)

On March 26, 2010, the Company acquired substantially all of the assets of Kerdock, pursuant to the terms of an Asset Purchase Agreement. The Company estimated the total allocable purchase price consideration to be \$5.3 million. The purchase price estimate was comprised of \$1.5 million in cash paid and \$1.1 million of Company common stock issued at closing, increased by \$2.7 million representing the fair value of additional earnings-based contingent consideration. The contingency was achieved during 2010 and as such, the Company accelerated the payment of the contingent consideration and paid \$1.9 million in cash and issued stock worth \$0.8 million in November 2010. The Company incurred approximately \$0.4 million in transaction costs, which were expensed when incurred. The results of the Kerdock operations have been included in the Company’s consolidated financial statements since the acquisition date.

The Company has allocated the total purchase price consideration between tangible assets, identified intangible assets, liabilities, and goodwill as follows (in millions):

Acquired tangible assets	\$	2.1
Acquired intangible assets		1.6
Liabilities assumed		(1.2)
Goodwill		2.8
Total purchase price	\$	5.3

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

Acquisition of speakTECH

On December 10, 2010, the Company acquired speakTECH pursuant to the terms of an Agreement and Plan of Merger. The Company estimated the total allocable purchase price consideration to be \$9.4 million. The purchase price estimate was comprised of \$4.3 million in cash paid (included \$0.9 million in assumed shareholder debt) and \$1.8 million of Company common stock, increased by \$3.3 million representing the fair value estimate of additional earnings-based contingent consideration that may be realized by speakTECH’s selling interest holders 12 months after the closing date of the acquisition. The contingency was achieved during 2011 and as such, the Company accelerated the payment of the contingent consideration and paid \$1.5 million in cash and issued stock worth \$2.9 million in December 2011. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred. The results of the speakTECH operations have been included in the Company’s consolidated financial statements since the acquisition date.

The Company has allocated the total purchase price consideration between tangible assets, identified intangible assets, liabilities, and goodwill as follows (in millions):

Acquired tangible assets	\$	4.3
Acquired intangible assets		3.3

Liabilities assumed	(6.1)
Goodwill	7.9
Total purchase price	\$ 9.4

The Company estimated the intangible assets acquired to have useful lives of seven months to five years.

The Company made immaterial adjustments to the fair value estimates of speakTECH related to net working capital amounts and deferred taxes to reflect new information obtained as the Company finalized its fair value estimates during the fourth quarter 2011.

Acquisition of Exervio

On April 1, 2011, the Company acquired substantially all of the assets of Exervio pursuant to the terms of an Asset Purchase Agreement. Exervio is based in Charlotte, North Carolina and is a business and management consulting firm focused on program and project management, process improvement, and data/business analytics. The acquisition of Exervio will enhance the Company's management consulting skills and qualifications, as well as extend the Company's presence in North Carolina and Georgia.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

The Company has initially estimated the total allocable purchase price consideration to be \$11.2 million. The initial purchase price estimate is comprised of \$6.5 million in cash paid and \$2.8 million of Company common stock issued at closing, increased by \$1.9 million representing the initial fair value estimate of additional earnings-based contingent consideration, which may be partially realized by the Exervio selling shareholders 12 months after the closing date of the acquisition, and the remainder potentially realized 18 months after the closing date of the acquisition. If the contingency is achieved, 25% of the earnings-based contingent consideration will be paid in cash and 75% will be issued in stock to the Exervio selling shareholders. The contingent consideration is recorded in "Other current liabilities" on the Consolidated Balance Sheet as of December 31, 2011. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

The Company has estimated the allocation of the total purchase price consideration between tangible assets, identified intangible assets, liabilities, and goodwill as follows (in millions):

Acquired tangible assets	\$	2.6
Acquired intangible assets		4.5
Liabilities assumed		(1.1)
Goodwill		5.2
Total purchase price	\$	11.2

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

The amounts above represent the fair value estimates as of December 31, 2011 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

Acquisition of JCB

On July 1, 2011, the Company acquired substantially all of the assets of JCB pursuant to the terms of an Asset Purchase Agreement. JCB is based in Denver, Colorado and is a business and technology consulting firm focused on enterprise performance management, analytics, and business intelligence solutions, primarily leveraging the IBM Cognos suite of software products. The acquisition of JCB will further enhance the Company's position in business intelligence and enterprise performance management and increase access to CFO suites, as well as extend the Company's presence in Denver, Chicago, and Northern and Southern California.

The Company has initially estimated the total allocable purchase price consideration to be \$16.6 million. The initial purchase price estimate is comprised of \$12.5 million in cash paid and \$4.1 million of Company common stock issued at closing. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

The Company has estimated the allocation of the total purchase price consideration between tangible assets, identified intangible assets, liabilities, and goodwill as follows (in millions):

Acquired tangible assets	\$	2.8
Acquired intangible assets		3.0
Liabilities assumed		(1.3)
Goodwill		12.1
Total purchase price	\$	16.6

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

The amounts above represent the fair value estimates as of December 31, 2011 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

The results of the Exervio and JCB operations have been included in the Company's consolidated financial statements since the acquisition date.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

The amounts of revenue and net income of Exervio and JCB included in the Company's Consolidated Statements of Operations from the acquisition date to December 31, 2011 are as follows (in thousands):

	Acquisition Date to December 31, 2011
Revenues	\$ 20,367
Net income	\$ 823

Pro-forma Results of Operations (Unaudited)

The following presents the unaudited pro-forma combined results of operations of the Company with Kerdock, speakTECH, Exervio, and JCB for the years ended December 31, 2011 and 2010, after giving effect to certain pro-forma adjustments related to the amortization of acquired intangible assets and assuming Kerdock, speakTECH, Exervio, and JCB were acquired as of the beginning of 2010. These unaudited pro-forma results are presented in compliance with the adoption of Accounting Standards Update ("ASU") 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations, and are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2010 or of future results of operations of the consolidated entities (in thousands):

	December 31,	
	2011	2010
Revenues	\$274,596	\$257,906
Net income	\$12,905	\$5,770

PointBridge Solutions, LLC ("PointBridge")

In February 2012, the Company acquired substantially all of the assets of PointBridge. Refer to Note 16, Subsequent Events, for further discussion.

8. Goodwill and Intangible Assets

The Company performed its annual impairment test of goodwill as of October 1, 2011. As required by ASC Topic 350, the impairment test is accomplished using a two-step approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. The Company also reviews other factors to determine the likelihood of impairment. Based on the test performed, the Company's fair value as of the annual testing date exceeded its book value and consequently, no impairment was indicated.

The Company's fair value was determined by weighting the results of two valuation methods: 1) market capitalization based on the average price of the Company's common stock, including a control premium, for a reasonable period of time prior to the evaluation date (generally 15 days) and 2) a discounted cash flow model. The fair value calculated using the Company's average common stock price (including a control premium) was weighted 40% while the value

calculated by the discounted cash flow model was weighted 60% in the Company's determination of its overall fair value.

Goodwill

Activity related to goodwill consisted of the following (in thousands):

	2011	2010
Balance, beginning of year	\$ 115,227	\$ 104,168
Preliminary purchase price allocations for acquisitions (Note 7)	17,169	11,059
Purchase accounting adjustments	(358)	--
Balance, end of year	\$ 132,038	\$ 115,227

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

Intangible Assets with Definite Lives

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

	Year ended December 31,					
	2011			2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	\$ 20,713	\$ (11,976)	\$ 8,737	\$ 19,543	\$ (12,169)	\$ 7,374
Non-compete agreements	1,073	(309)	764	1,031	(413)	618
Customer backlog	--	--	--	51	--	51
Trade name	152	(84)	68	169	(25)	144
Internally developed software	1,036	(477)	559	1,039	(397)	642
Total	\$ 22,974	\$ (12,846)	\$ 10,128	\$ 21,833	\$ (13,004)	\$ 8,829

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

Customer relationships	2 - 8 years
Non-compete agreements	3 - 5 years
Internally developed software	3 - 5 years
Trade name	1 - 3 years

The weighted average amortization periods for customer relationships and non-compete agreements are 6 years and 5 years, respectively. Total amortization expense for the years ended December 31, 2011, 2010, and 2009 was approximately \$6.3 million, \$4.0 million, and \$4.3 million, respectively.

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

2012	\$ 4,162
2013	\$ 2,677
2014	\$ 1,504
2015	\$ 664
2016	\$ 510
Thereafter	\$ 611

9. Stock-Based Compensation

Stock Option Plans

The Company made various stock option and award grants under the 1999 Stock Option/Stock Issuance Plan (the “1999 Plan”) prior to May 2009. In April 2009, the Company’s stockholders approved the 2009 Long-Term Incentive Plan (the “Incentive Plan”), which had been previously approved by the Company’s Board of Directors. The Incentive Plan allows for the granting of various types of stock awards, not to exceed a total of 1.5 million shares, to eligible individuals. The Compensation Committee of the Board of Directors will administer the Incentive Plan and determine the terms of all stock awards made under the Incentive Plan.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

A summary of changes in stock options during 2011, 2010, and 2009 is as follows (in thousands, except exercise price information):

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at January 1, 2009	2,030	\$ 0.03 – 16.94	\$ 4.81	
Options granted	--	--	--	
Options exercised	(279)	0.10 – 7.48	3.04	\$ 1,043
Options canceled	(47)	0.03 – 13.25	5.35	
Options outstanding at December 31, 2009	1,704	\$ 0.03 – 16.94	\$ 5.08	
Options granted	--	--	--	
Options exercised	(369)	0.03 – 10.00	3.66	\$ 2,480
Options canceled	(136)	1.01 – 16.94	13.53	
Options outstanding at December 31, 2010	1,199	\$ 0.03 – 9.19	\$ 4.56	
Options granted	--	--	--	
Options exercised	(802)	0.03 – 9.19	4.49	\$ 5,598
Options canceled	(39)	1.41 – 7.48	5.58	
Options outstanding at December 31, 2011	358	\$ 0.03 – 9.19	\$ 4.61	\$ 1,932
Options vested, December 31, 2009	1,532	\$ 0.03 – 16.94	\$ 4.95	
Options vested, December 31, 2010	1,113	\$ 0.03 – 9.19	\$ 4.43	
Options vested, December 31, 2011	358	\$ 0.03 – 9.19	\$ 4.61	\$ 1,932

The following is additional information related to stock options outstanding at December 31, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options	Weighted Average Exercise	Weighted Average Remaining	Options	Weighted Average Exercise

Edgar Filing: PERFICIENT INC - Form 10-K

	Price	Contractual Life (Years)	Price
\$ 0.03 – 2.28	106,018	\$ 1.68	1.54
\$ 3.10 – 4.72	60,394	\$ 3.38	2.47
\$ 6.31 – 9.19	191,276	\$ 6.62	3.03
\$ 0.03 – 9.19	357,688	\$ 4.61	2.50

At December 31, 2011, 2010, and 2009, the weighted-average remaining contractual life of outstanding options was 2.50, 1.54, and 3.40 years, respectively. Generally stock options have a maximum contractual term of ten years.

Restricted stock activity for the year ended December 31, 2011 was as follows (in thousands, except fair value information):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2011	2,606	\$ 8.97
Awards granted (1)	720	\$ 10.31
Awards vested	(822)	\$ 10.07
Awards canceled or forfeited	(461)	\$ 8.76
Restricted stock awards outstanding at December 31, 2011	2,043	\$ 9.16

- (1) Includes the issuance of 97,800 shares of restricted stock to former JCB employees. The grants vest in 20% increments annually over a 5-year period. If the recipient is not employed by the Company for any reason during the 5-year period, then any unvested shares will be forfeited.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

The weighted average grant date fair value of shares granted during 2010 and 2009 was \$10.42 and \$6.92, respectively. The total fair value of restricted shares vesting during the years ended December 31, 2011, 2010 and 2009 was \$7.8 million, \$9.3 million and \$6.7 million, respectively.

The Company recognized \$9.2 million, \$10.8 million and \$9.8 million of share-based compensation expense during 2011, 2010 and 2009, respectively, which included \$1.1 million, \$0.9 million and \$0.9 million of expense for retirement savings plan contributions, respectively. The associated current and future income tax benefit recognized during 2011, 2010 and 2009 was \$3.1 million, \$3.8 million and \$3.4 million, respectively. As of December 31, 2011, there was \$15.1 million of total unrecognized compensation cost related to non-vested share-based awards. This cost is expected to be recognized over a weighted-average period of three years. The Company's average estimated forfeiture rate for share based awards for the year ended December 31, 2011 was 7%, which was calculated using historical forfeiture experience. Generally restricted stock awards vest over a three to five year requisite service period.

At December 31, 2011, 0.4 million shares were reserved for future issuance upon exercise of outstanding options. At December 31, 2011, there were 2.0 million shares of restricted stock outstanding under the 1999 Plan and the Incentive Plan.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "ESPP") was initiated January 1, 2006 and is a broadly-based stock purchase plan in which any eligible employee may elect to participate by authorizing the Company to make payroll deductions in a specific amount or designated percentage to pay the exercise price of an option. In no event will an employee be granted ability under the ESPP that would permit the purchase of common stock with a fair market value in excess of \$25,000 in any calendar year and the Compensation Committee of the Company has set the current annual participation limit at \$12,500. During the year ended December 31, 2011, approximately 11,400 shares were purchased under the ESPP.

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

10. Line of Credit

On May 23, 2011, the Company renewed and extended the term of its 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 \$50.0 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 \$500,000 at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. Substantially all of the Company's assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015. Borrowings under the credit facility bear interest at the Company's option of SVB's prime rate

(4.00% on December 31, 2011) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.295% on December 31, 2011) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of December 31, 2011, the Company had \$50.0 million of maximum borrowing capacity. An annual commitment fee of 0.30% is incurred on the unused portion of the line of credit.

The Company is required to comply with various financial covenants under the Credit Agreement. Specifically, the Company is required to maintain a ratio of earnings before interest, taxes, depreciation, and amortization (“EBITDA”) plus stock compensation and minus income taxes paid and capital expenditures to interest expense and scheduled payments due for borrowings on a trailing three months basis annualized of not less than 2.00 to 1.00 and a ratio of current maturities of long-term debt to EBITDA plus stock compensation and minus income taxes paid and capital expenditures of not more than 2.75 to 1.00.

11. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Internal Revenue Service (“IRS”) has completed examinations of the Company’s U.S. income tax returns or the statute has passed on years through 2007. The IRS completed its examination of the Company’s 2009 income tax return during 2011 and the proposed adjustments to the Company’s tax positions were not material.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

Under the provisions of the ASC Subtopic 740-10-25, the Company had no unrecognized tax benefits as of December 31, 2011 or 2010.

As of December 31, 2011, the Company had U.S. Federal tax net operating loss carry forwards of approximately \$5.9 million that will begin to expire in 2020 if not utilized. Utilization of net operating losses may be subject to an annual limitation due to the “change in ownership” provisions of the Code. The annual limitation may result in the expiration of net operating losses before utilization.

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

	Year Ended December 31,		
	2011	2010	2009
Current:			
Federal	\$ 6,358	\$ 4,009	\$ 1,173
State	996	1,043	385
Foreign	13	11	7
Total current	7,367	5,063	1,565
Deferred:			
Federal	487	192	(16)
State	44	13	(2)
Total deferred	531	205	(18)
Total provision for income taxes	\$ 7,898	\$ 5,268	\$ 1,547

The components of pretax income for the years ended December 31, 2011, 2010 and 2009 are as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Domestic	\$ 17,614	\$ 9,770	\$ 2,995
Foreign	1,031	1,978	15
Total	\$ 18,645	\$ 11,748	\$ 3,010

For the year ended December 31, 2011, 2010 and 2009, foreign operations included Canada, China and India.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company’s deferred taxes as of December 31, 2011 and 2010 are as follows (in thousands):

	December 31,	
	2011	2010
Deferred tax assets:		
Current deferred tax assets:		

Edgar Filing: PERFICIENT INC - Form 10-K

Accrued liabilities	\$	568	\$	539
Net operating losses		385		273
Bad debt reserve		297		260
Net current deferred tax assets	\$	1,250	\$	1,072

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

	December 31,	
	2011	2010
Non-current deferred tax assets:		
Net operating losses and capital loss	\$ 1,873	\$ 1,407
Fixed assets	--	183
Deferred compensation	1,908	2,510
Goodwill and intangibles	2,847	456
Accrued liabilities	236	170
Acquisition-related costs	295	152
Equity in undistributed foreign earnings	--	43
Net non-current deferred tax assets	\$ 7,159	\$ 4,921
	December 31,	
	2011	2010
Deferred tax liabilities:		
Current deferred tax liabilities:		
Deferred income	\$ --	\$ 53
Prepaid expenses	403	363
Net current deferred tax liabilities	\$ 403	\$ 416
Non-current deferred tax liabilities:		
Equity in undistributed foreign earnings	\$ 123	\$ --
Goodwill and intangibles	6,832	5,338
Accrued liabilities	34	--
Fixed assets	87	--
Total non-current deferred tax liabilities	\$ 7,076	\$ 5,338
Net current deferred tax asset	\$ 847	\$ 656
Net non-current deferred tax asset (liability)	\$ 83	\$ (417)

Management regularly assesses the likelihood that deferred tax assets will be recovered from future taxable income. To the extent management believes that it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is established. Management believes it is more likely than not that the Company will generate sufficient taxable income in future years to realize the benefits of its deferred tax assets. The Company's net current deferred tax asset is included in other assets and the net non-current deferred tax liability is included in other non-current liabilities on the Consolidated Balance Sheet.

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

	Year Ended December 31,		
	2011	2010	2009
Federal corporate statutory rate	34.6%	34.2%	34.0%
State taxes, net of federal benefit	4.1	5.7	8.4
Effect of foreign operations	(0.9)	(3.7)	--

Edgar Filing: PERFICIENT INC - Form 10-K

Stock compensation	1.4	4.5	7.4
Non-deductible acquisition costs	2.1	1.7	--
Other	1.1	2.4	1.6
Effective income tax rate	42.4%	44.8%	51.4%

The effective income tax rate decreased to 42.4% for the year ended December 31, 2011 from 44.8% for the year ended December 31, 2010 primarily due to the effect of state taxes and permanent items over a larger income base and lower non-deductible stock compensation.

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

12. Commitments and Contingencies

The Company leases office space and certain equipment under various operating lease agreements. The Company has the option to extend the term of certain lease agreements. Future minimum commitments under these lease agreements as of December 31, 2011 are as follows (in thousands):

	Operating Leases
2012	\$ 2,458
2013	2,429
2014	1,958
2015	1,482
2016	1,369
Thereafter	558
Total minimum lease payments	\$ 10,254

Rent expense for the years ended December 31, 2011, 2010, and 2009 was approximately \$2.9 million, \$2.5 million, and \$2.7 million, respectively.

13. Balance Sheet Components

	December 31, 2011 2010 (In thousands)	
Accounts receivable:		
Accounts receivable	\$ 44,438	\$ 33,406
Unbilled revenues	17,511	15,318
Allowance for doubtful accounts	(1,057)	(228)
Total	\$ 60,892	\$ 48,496
Property and Equipment:		
Computer hardware (useful life of 3 years)	\$ 5,710	\$ 5,064
Leasehold improvements (useful life of 5 years)	1,801	1,159
Software (useful life of 1 year)	1,494	1,287
Furniture and fixtures (useful life of 5 years)	1,474	1,160
Less: Accumulated depreciation	(6,989)	(6,315)
Total	\$ 3,490	\$ 2,355
Other current liabilities:		
Accrued variable compensation	\$ 6,998	\$ 8,456
Payroll related costs	2,504	1,986
Accrued subcontractor fees	2,392	2,631
Estimated fair value of contingent consideration liability (Note 7)	2,377	3,339
Deferred revenues	1,041	1,121

Edgar Filing: PERFICIENT INC - Form 10-K

Accrued medical claims expense	902	810
Acquired liabilities	239	2,244
Other current liabilities	2,030	2,067
Total	\$ 18,483	\$ 22,654
Other non-current liabilities:		
Deferred compensation liability	\$ 1,141	\$ 1,162
Deferred income taxes	309	417
Other non-current liabilities	11	209
Total	\$ 1,461	\$ 1,788

PERFICIENT, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
DECEMBER 31, 2011

14. Allowance for Doubtful Accounts

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

	Year ended December 31,		
	2011	2010	2009
Balance, beginning of year	\$ 228	\$ 315	\$ 1,497
Charges (reductions) to expense	1,037	(68)	(448)
Uncollected balances written off, net of recoveries	(208)	(19)	(734)
Balance, end of year	\$ 1,057	\$ 228	\$ 315

15. Quarterly Financial Results (Unaudited)

The following tables set forth certain unaudited supplemental quarterly financial information for the years ended December 31, 2011 and 2010. The quarterly operating results are not necessarily indicative of future results of operations (in thousands except per share data).

	Three Months Ended,			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
	(Unaudited)			
Total revenues	\$56,245	\$65,587	\$70,174	\$70,433
Gross margin	\$16,289	\$21,222	\$22,317	\$21,306
Income from operations	\$3,054	\$4,881	\$5,717	\$4,940
Income before income taxes	\$3,036	\$4,888	\$5,729	\$4,992
Net income	\$1,793	\$2,767	\$3,466	\$2,721
Basic net income per share	\$0.07	\$0.10	\$0.12	\$0.10
Diluted net income per share	\$0.06	\$0.10	\$0.12	\$0.09

	Three Months Ended,			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
	(Unaudited)			
Total revenues	\$48,915	\$55,460	\$54,648	\$55,929
Gross margin	\$13,419	\$16,952	\$16,451	\$15,945
Income from operations	\$1,542	\$3,270	\$3,531	\$3,174
Income before income taxes	\$1,575	\$3,303	\$3,599	\$3,271
Net income	\$868	\$2,051	\$2,253	\$1,308
Basic net income per share	\$0.03	\$0.08	\$0.08	\$0.05
Diluted net income per share	\$0.03	\$0.07	\$0.08	\$0.05

16. Subsequent Events

On February 9, 2012, the Company acquired substantially all of the assets of PointBridge pursuant to the terms of an Asset Purchase Agreement for approximately \$22.0 million, consisting of \$14.4 million in cash and approximately \$7.6 million of Perficient common stock. PointBridge is based in Chicago, Illinois and is a services revenue business and technology consulting firm focused on collaboration, web content management, unified communications and business intelligence, primarily leveraging Microsoft technologies. The acquisition of PointBridge will further enhance the Company's position amongst the very largest and most capable Microsoft systems integrator consulting firms, as well as extend the Company's presence in the Chicago, Milwaukee and Boston markets.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Perficient, Inc.:

We have audited the accompanying consolidated balance sheets of Perficient, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. We also have audited the Company's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

The Company acquired Exervio Consulting, Inc. (Exervio) and JCB Partners, LLC (JCB) in April and July 2011, respectively, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, Exervio's and JCB's internal control over financial reporting associated with 12% and 8% of the Company's total assets and total revenues, respectively, included in the consolidated financial statements of the Company as of and for the year ended December 31, 2011. Our audit of internal control over financial reporting of the Company as of December 31, 2011 also excluded an evaluation of the internal control over financial reporting of Exervio and JCB.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Perficient, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Perficient, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control — Integrated Framework issued by the COSO.

/s/ KPMG LLP

St. Louis, Missouri
February 29, 2012

Item 9.Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item Controls and Procedures.

9A.

Evaluation of Disclosure Controls and Procedures

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

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

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f). In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under those criteria, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2011.

The Company acquired Exervio Consulting, Inc. ("Exervio") and JCB Partners, LLC ("JCB") in April and July of 2011, respectively. As permitted by SEC guidance, management excluded these acquired companies from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011. In total, Exervio and JCB represented 12% and 8% of the Company's total assets and total revenues, respectively, as of and for the year ended December 31, 2011. Excluding identifiable intangible assets and goodwill recorded in the business combination, Exervio and JCB represented 2% of the Company's total assets as of December 31, 2011.

KPMG LLP, our independent registered public accounting firm, has audited our financial statements for the year ended December 31, 2011 included in this Form 10-K, and has issued its report on the effectiveness of internal control

over financial reporting as of December 31, 2011, which is included herein.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item Other Information.

9B.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Executive Officers

Our executive officers, including their ages as of the date of this filing are as follows:

Name	Age	Position
Jeffrey S. Davis	47	President and Chief Executive Officer
Kathryn J. Henely	47	Chief Operating Officer
Paul E. Martin	51	Chief Financial Officer, Treasurer and Secretary

Jeffrey S. Davis became the Chief Executive Officer and a member of the Board on September 1, 2009. He previously served as the Chief Operating Officer of the Company after the closing of the acquisition of Vertecon in April 2002 and was named the Company's President in 2004. He served the same role of Chief Operating Officer at Vertecon from October 1999 to its acquisition by Perficient. Before Vertecon, Mr. Davis was a Senior Manager and member of the leadership team in Arthur Andersen's Business Consulting Practice, where he was responsible for defining and managing internal processes, while managing business development and delivery of all products, services and solutions to a number of large accounts. Mr. Davis also served in a leadership position at Ernst & Young LLP in the Management Consulting practice and in industry at Boeing, Inc. and Mallinckrodt, Inc. Mr. Davis is an active volunteer member of the board of directors of the Cystic Fibrosis Foundation of St. Louis and a member of the University of Missouri Trulaske College of Business advisory board. Mr. Davis has a M.B.A. from Washington University and a B.S. degree in Electrical Engineering from the University of Missouri.

Kathryn J. Henely was appointed the Company's Chief Operating Officer on November 3, 2009. Ms. Henely joined the Company in 1999 as a Director in the St. Louis office. She was promoted to General Manager in 2001 and to Vice President of Corporate Operations in 2006. Ms. Henely has been the Vice President for the Company's largest business group including several local and national business units along with our offshore development center in China. She actively participated in the due diligence and integration of several acquisitions within her business group. Additionally, she led the establishment of our Company Wide Practices and Corporate Recruiting organization. Ms. Henely received her M.S. in Computer Science from the University of Missouri-Rolla and her B.S. in Computer Science from the University of Iowa.

Paul E. Martin joined the Company in August 2006 as Chief Financial Officer, Treasurer and Secretary. From August 2004 until February 2006, Mr. Martin was the Interim co-Chief Financial Officer and Interim Chief Financial Officer of Charter Communications, Inc. ("Charter"), a publicly traded multi-billion dollar revenue domestic cable television multi-system operator. From April 2002 through April 2006, Mr. Martin was the Senior Vice President, Principal Accounting Officer and Corporate Controller of Charter and was Charter's Vice President and Corporate Controller from March 2000 to April 2002. Prior to Charter, Mr. Martin was Vice President and Controller for Operations and Logistics for Fort James Corporation, a manufacturer of paper products with multi-billion dollar revenues. From 1995 to February 1999, Mr. Martin was Chief Financial Officer of Rawlings Sporting Goods Company, Inc., a publicly traded multi-million dollar revenue sporting goods manufacturer and distributor. Mr. Martin received a B.S. degree

with honors in accounting from the University of Missouri – St. Louis. Mr. Martin is also a member of the University of Missouri – St. Louis School of Business Leadership Council.

Additional information with respect to Directors and Executive Officers of the Company is incorporated by reference to the Proxy Statement under the captions “Directors and Executive Officers”, “Composition and Meetings of the Board of Directors and Committees”, and “Section 16(a) Beneficial Ownership Reporting Compliance.” The Proxy Statement will be filed pursuant to Regulation 14A within 120 days of the end of the Company's fiscal year.

Codes of Conduct and Ethics

Information on this subject is found in the Proxy Statement under the caption “Certain Relationships and Related Transactions” and is incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulation 14A within 120 days of the end of the Company's fiscal year.

Audit Committee of the Board of Directors

Information on this subject is found in the Proxy Statement under the caption “Compensation and Meetings of the Board of Directors and Committees” and is incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulation 14A within 120 days of the end of the Company's fiscal year.

Item Executive Compensation.

11.

Information on this subject is found in the Proxy Statement under the captions “Compensation of Directors and Executive Officers,” “Directors and Executive Officers,” “Compensation Committee Report,” and “Compensation Committee Interlocks and Insider Participation” and is incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulation 14A within 120 days of the end of the Company's fiscal year.

Item Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

12.

Information on this subject is found in the Proxy Statement under the captions “Security Ownership of Certain Beneficial Owners and Management,” “Directors and Executive Officers,” and “Equity Compensation Plan Information” and is incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulations 14A within 120 days of the end of the Company's fiscal year.

Item Certain Relationships and Related Transactions, and Director Independence.

13.

Information on this subject is found in the Proxy Statement under the caption “Certain Relationships and Related Transactions” and incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulation 14A within 120 days of the end of the Company's fiscal year.

Item Principal Accounting Fees and Services.

14.

Information on this subject is found in the Proxy Statement under the caption “Principal Accounting Firm Fees and Services” and incorporated herein by reference. The Proxy Statement will be filed pursuant to Regulation 14A within 120 days of the end of the Company's fiscal year.

PART IV

Item Exhibits, Financial Statement Schedules.

15.

1. Financial Statements

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

Index	Page(s)
Consolidated Balance Sheets	26
Consolidated Statements of Operations	27
Consolidated Statements of Changes in Stockholders' Equity	28
Consolidated Statements of Cash Flows	29
Notes to Consolidated Financial Statements	30
Report of Independent Registered Public Accounting Firm	45-46

2. Financial Statement Schedules

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

3. Exhibits

See Index to Exhibits starting on page 52.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PERFICIENT, INC.

Date: March 1, 2012

By: /s/ Paul E. Martin
 Paul E. Martin
 Chief Financial Officer(Principal Financial Officer and Principal Accounting Officer)

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Jeffrey S. Davis and Paul E. Martin, and each of them (with full power to each of them to act alone), his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign on his or her behalf individually and in each capacity stated below any and all amendments (including post-effective amendments) to this annual report, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents and either of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Jeffrey S. Davis Jeffrey S. Davis	Director, President and Chief Executive Officer (Principal Executive Officer)	March 1, 2012
/s/ Paul E. Martin Paul E. Martin	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 1, 2012
/s/ Ralph C. Derrickson Ralph C. Derrickson	Director	March 1, 2012
/s/ Edward L. Glotzbach Edward L. Glotzbach	Director	March 1, 2012
/s/ John S. Hamlin	Director	March 1, 2012

Edgar Filing: PERFICIENT INC - Form 10-K

John S. Hamlin

/s/ James R. Kackley
James R. Kackley

Director

March 1, 2012

/s/ David S. Lundeen
David S. Lundeen

Director

March 1, 2012

/s/ David D. May
David D. May

Director

March 1, 2012

INDEX TO EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
3.2	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Form 8-A filed with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934 on February 15, 2005 and incorporated herein by reference
3.3	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-8 (File No. 333-130624) filed on December 22, 2005 and incorporated herein by reference
3.4	Bylaws of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed November 9, 2007 and incorporated herein by reference
4.1	Specimen Certificate for shares of Perficient, Inc. common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our Quarterly Report on Form 10-Q (File No. 001-15169) filed May 7, 2009 and incorporated herein by reference
4.2	Form of Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K (File No.001-15169) filed on January 17, 2002 and incorporated herein by reference
10.1†	Perficient, Inc. Amended and Restated 1999 Stock Option/Stock Issuance Plan, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated by reference herein
10.2†	Perficient, Inc. 2009 Long-Term Incentive Plan, as amended, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed February 25, 2010 and incorporated herein by reference
10.3†	Form of Stock Option Agreement, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 and incorporated herein by reference
10.4†	Perficient, Inc. Employee Stock Purchase Plan, previously filed with the Securities and Exchange Commission as Appendix A to the Registrant's Schedule 14A (File No. 001-15169) on October 13, 2005 and incorporated herein by reference
10.5†	Form of Restricted Stock Agreement, previously filed with the Securities and Exchange Commission as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated

by reference herein

- 10.6† Form of Restricted Stock Agreement, previously filed with the Securities and Exchange Commission as an Exhibit to our Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated by reference herein
- 10.7† Employment Agreement between Perficient, Inc. and Paul E. Martin dated and effective January 1, 2012, previously filed as an Exhibit to our Current Report on Form 8-K (File No. 001-15169) filed on December 23, 2011 and incorporated herein by reference
- 10.8† Employment Agreement between Perficient, Inc. and Jeffrey S. Davis dated December 22, 2011, and effective as of January 1, 2012, previously filed as an Exhibit to our Current Report on Form 8-K (File No. 001-15169) filed on December 23, 2011 and incorporated herein by reference

Exhibit Number	Description
10.9	Amended and Restated Credit Agreement by and among Silicon Valley Bank, Bank of America, N.A., and U.S. Bank, N.A., and Perficient, Inc. dated effective as of May 23, 2011, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K (File No. 001-15169) filed on May 26, 2011 and incorporated herein by reference
21.1*	Subsidiaries
23.1*	Consent of KPMG LLP
24.1*	Power of Attorney (included on the signature page hereto)
31.1*	Certification by the Chief Executive Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification by the Chief Financial Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer and Chief Financial Officer of Perficient, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

* Filed herewith.

