

**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, 2012  
☐ 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 ☐

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 checked="" 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 \$343,242,985 based on the last reported sale price of the Company's common stock on The Nasdaq Global Select Market on June 29, 2012.

As of March 4, 2013, there were 33,283,758 shares of common stock outstanding.

Portions of the definitive proxy statement in connection with the 2013 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than April 30, 2013, are incorporated by reference in Part III of this Form 10-K.

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## PART I

### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

#### **Item 1. Business.**

##### **Overview**

We are an information technology consulting firm serving Forbes Global 2000 and other large enterprise companies with a primary focus 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 2012, we continued to implement a strategy focused on: expanding our relationships with existing and new clients; continuing to make disciplined acquisitions by acquiring PointBridge Solutions, LLC ("PointBridge"), Nascent Systems, LP ("Nascent"), and Northridge Systems, Inc. ("Northridge"); 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 China and India; and leveraging our existing, and pursuing new, strategic alliances by targeting leading business advisory companies and technology providers. Approximately 99% of our revenues were derived from clients in the United States during 2012 and 2011 and 96% during 2010, with the remainder derived from clients outside of the United States. Approximately 97% of our total assets were located in the United States in 2012, 2011, and 2010 with the remainder located in Canada, China, and India.

We have been able to extend or enhance our presence in certain markets through acquisitions, as well as expand or enhance the services and solutions we are able to provide our clients. In 2012, we extended our presence in the Atlanta, Chicago, and Dallas markets and are now able to provide additional services and solutions utilizing Microsoft technologies and Oracle E-Business Suite.

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

## **Our Solutions**

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

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

Our business-driven technology solutions include the following:

- *Business integration and service oriented architectures ("SOA").* We design, develop, and implement business integration and SOA solutions that allow our clients to integrate all of their business processes end-to-end and across the enterprise. Truly innovative companies are extending those processes and eliminating functional friction between the enterprise, core customers, and partners. Our business integration solutions can extend and extract core applications, reduce infrastructure strains and cost, web-enable legacy applications, provide real-time insight into business metrics, and introduce efficiencies for customers, suppliers, and partners.
- *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 information technology 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, 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, 2012, 2011 and 2010, 84%, 81% and 84%, 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 Team TIBCO Partner, and an EMC Consulting Preferred Partner. Our vendors have recognized our relationships with several awards. In 2012, we received the IBM Information Management Integration Excellence Award and the IBM Business Analytics Solution Provider Achievement Award. We were also named Microsoft Healthcare Provider Partner of the Year and received the Microsoft Northeast Area Cloud Practice Award and the Microsoft Best Practices 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, 2012, we had 178 colleagues at the Hangzhou, China facility, 38 colleagues at the Chennai, India facility, and 191 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.

## Employees

As of December 31, 2012, we had 1,677 colleagues, 1,392 of which were billable (excluding 167 billable subcontractors) and 285 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, 2012, we had a 90-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 86% of our sales are executed by our direct sales force. In addition to our direct sales team, we also have 40 dedicated sales support employees, 22 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.

## **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](http://www.perficient.com). We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information contained or incorporated in our website is not part of this document.

## **Item 1A. Risk Factors.**

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

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

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

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

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

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

Our revenue and profitability depend on the demand for our services and favorable margins, which could be negatively affected by numerous factors, many of which are beyond our control and unrelated to our work product. As described above, volatile, negative or uncertain global economic conditions have adversely affected and could in the future adversely affect client demand for our services and solutions. In addition, developments in the industries we serve, which may be rapid, could shift demand to services and solutions where we are less competitive, or might require significant investment by us to upgrade, enhance or expand our services and solutions to meet that demand. Companies in the industries we serve sometimes seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If one of our current clients merges or consolidates with a company that relies on another provider for its consulting, systems integration and technology, or outsourcing services, we may lose work from that client or lose the opportunity to gain additional work if we are not successful in generating new opportunities from the merger or consolidation. Many of our consulting contracts are less than 12 months in duration, and these contracts typically permit a client to terminate the agreement with as little as 10 days' notice. If a client is dissatisfied with our services and we are unable to effectively respond to its needs, the client might terminate existing contracts, or reduce or eliminate spending on the services and solutions we provide. Additionally, a client could choose not to retain us for additional stages of a project, try to renegotiate the terms of its contract or cancel or delay additional planned work. When contracts are terminated or not renewed, we lose the anticipated revenues, and it may take significant time to replace the level of revenues lost. Consequently, our results of operations in subsequent periods could be materially lower than expected. The specific business or financial condition of a client, changes in management and changes in a client's strategy also are all factors that can result in terminations, cancellations or delays. It could also result in pressure to reduce the cost of our services.

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

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

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



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

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

There is a risk that at certain points in time and in certain geographical regions, we will find it difficult to hire and retain a sufficient number of employees with the skills or backgrounds to meet current and/or future demand. In these cases, we might need to redeploy existing personnel or increase our reliance on subcontractors to fill certain labor needs, and if not done effectively, our profitability could be negatively impacted. Additionally, if demand for our services were to escalate at a high rate, we may need to adjust our compensation practices, which could put upward pressure on our costs and adversely affect our profitability if we are unable to recover these increased costs. At certain times, however, we may also have more personnel than we need in certain skill sets or geographies. In these situations, we must evaluate voluntary attrition and use reduced levels of new hiring and increased involuntary terminations as means to keep our supply of skills and resources in balance with client demand in those geographies.

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

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

Many of the larger regional and national information technology consulting firms have substantially longer operating histories, more established reputations and potential vendor relationships, greater financial resources, sales and marketing organizations, market penetration, and research and development capabilities, as well as broader product offerings, greater market presence, and name recognition.

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

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

In addition, we may face greater competition due to consolidation of companies in the technology sector, through strategic mergers or acquisition. Consolidation activity may result in new competitors with greater scale, a broader footprint or offerings that are more attractive than ours. We believe that this competition could have a negative effect on our ability to compete for new work and skilled professionals. One or more of our competitors may develop and implement methodologies that result in superior productivity and price reductions without adversely affecting their profit margins. In addition, competitors may win client engagements by significantly discounting their services in exchange for a client's promise to purchase other goods and services from the competitor, either concurrently or in the future. These activities may potentially force us to lower our prices and suffer reduced operating margins. Any of these negative effects could significantly impair our results of operations and financial condition. We may not be able to compete successfully against new or existing competitors.

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

We are dependent on information technology networks and systems to process, transmit, and store electronic information and to communicate among our locations and with our partners and clients. Security breaches of this infrastructure could lead to shutdowns or disruptions of our systems and potential unauthorized disclosure of confidential information. In providing services to clients, we are also required at times to manage, utilize, and store sensitive or confidential client or employee data. As a result, we are subject to numerous laws and regulations designed to protect this information, such as various U.S. federal and state laws governing the protection of personally identifiable information. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to such data or otherwise mismanages or misappropriates that data, we could be subject to monetary damages, regulatory enforcement actions, fines, and/or criminal prosecution. Unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud or misappropriation could damage our reputation and cause us to lose clients. Similarly, unauthorized access to or through our information systems or those we develop for our clients, whether by our employees or third parties, could result in negative publicity, significant remediation costs, legal liability, and damage to our reputation and could have a material adverse effect on our results of operations. In addition, our liability insurance might not be sufficient in type or amount to cover us against claims related to security breaches, cyber-attacks and other related breaches.

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

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

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

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

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

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

Approximately 14% of our billable workforce is comprised of skilled foreign nationals holding H1-B visas. We also own a recruiting and development facility in Chennai, India to continue to grow our base of H1-B foreign national colleagues. The H1-B visa classification enables us to hire qualified foreign workers in positions that require the equivalent of at least a bachelor's degree in the U.S. in a specialty occupation such as technology systems engineering and analysis. The H1-B visa generally permits an individual to work and live in the U.S. for a period of three to six years, with some extensions available. The number of new H1-B petitions approved in any federal fiscal year is limited, making the H1-B visas necessary to bring foreign employees to the U.S. unobtainable in years in which the limit is reached. If we are unable to obtain all of the H1-B visas for which we apply, our growth may be hindered.

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

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

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

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

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

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

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

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

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

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

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

**The loss of one or more of our significant software vendors 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.

**Our services could infringe upon the intellectual property rights of others.**

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

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

Our success depends, in part, upon our ability to protect our proprietary methodologies and other intellectual property. Existing laws of some countries in which we provide services or solutions might offer only limited protection of our intellectual property rights. We rely upon a combination of trade secrets, confidentiality policies, nondisclosure, and other contractual arrangements to protect our intellectual property rights. These laws are subject to change at any time and could further restrict our ability to protect our innovations. Our intellectual property rights may not prevent competitors from independently developing products and services similar to or duplicative of ours. Further, the steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property by competitors, former employees or other third parties, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights. Enforcing our rights might also require considerable time, money and oversight and we may not be successful in enforcing our rights.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **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 and cash equivalents totaling \$5.8 million and a borrowing capacity of \$47.2 million, and a commitment to increase our borrowing capacity by \$25.0 million, at December 31, 2012. Of the \$5.8 million of cash and cash equivalents at December 31, 2012, \$3.6 million was held by our Chinese operations and is considered to be indefinitely reinvested in those operations. We intend to continue to make investments to support our business growth and may require additional funds if our capital is insufficient to pursue business opportunities and respond to business challenges. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us our ability to continue to support our business growth and to respond to business challenges could be significantly limited.

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

Our executive officers, directors, and 5% and greater stockholders beneficially own or control approximately 27% 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.

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

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

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

We have offices in 20 markets throughout North America and in China, India, and Canada. Our principal executive operations are located in St. Louis, Missouri where we have leased approximately 5,100 square feet for these functions. We do not own any real property; all of our office space is leased under long-term leases with varying expiration dates. We believe our facilities are adequate to meet our needs in the near future.

**Item 3. Legal Proceedings.**

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

## PART II

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

Our common stock is quoted on The Nasdaq Global Select Market under the symbol "PRFT." The following table sets forth, for the periods indicated, the high and low sale prices per share of our common stock as reported on The Nasdaq Global Select Market since January 1, 2012.

	High	Low
<b>Year Ending December 31, 2012:</b>		
First Quarter	\$ 12.80	\$ 10.24
Second Quarter	12.95	10.62
Third Quarter	13.54	9.79
Fourth Quarter	12.38	9.78
<b>Year Ending December 31, 2011:</b>		
First Quarter	\$ 13.16	\$ 10.68
Second Quarter	12.76	9.22
Third Quarter	11.32	7.09
Fourth Quarter	10.32	6.41

On March 4, 2013, the last reported sale price of our common stock on The Nasdaq Global Select Market was \$11.69 per share. There were approximately 346 stockholders of record of our common stock as of March 4, 2013, including 244 restricted account holders.

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

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

### Unregistered Sales of Securities

Our acquisition of Exervio Consulting, Inc. ("Exervio") in April 2011 included an earnings-based contingency, pursuant to which additional consideration could be realized by Exervio if certain earnings-based requirements were met. The second tranche of the contingency was achieved and, as such, we paid the additional consideration during October 2012. In connection with this payment, we issued 113,840 unregistered shares of our common stock to Exervio on October 3, 2012. 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 Exervio in a privately negotiated transaction and not pursuant to a public solicitation.

### Issuer Purchases of Equity Securities

Prior to 2012, our Board of Directors authorized the repurchase of up to \$60.0 million of our common stock. In May 2012, our Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$70.0 million at December 31, 2012. The repurchase program expires December 31, 2013. The program could be suspended or discontinued at any time, based on market, economic, or business conditions. The timing and amount of repurchase transactions will be determined by our management based on its evaluation of market conditions, share price, and other factors.

Since the program's inception on August 11, 2008, we have repurchased approximately \$60.0 million of our outstanding common stock through December 31, 2012.

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, 2012	7,423,767	\$ 7.35	7,423,767	\$ 15,398,879
October 1-31, 2012	--	--	--	\$ 15,398,879
November 1-30, 2012	--	--	--	\$ 15,398,879
December 1-31, 2012	497,103	10.90	497,103	\$ 9,978,590
Ending Balance as of December 31, 2012	7,920,870	\$ 7.58	7,920,870	

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

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

	Year Ended December 31,				
	2012	2011	2010	2009	2008
<b>Income Statement Data:</b>	(In thousands, except per share information)				
Revenues	\$ 327,096	\$ 262,439	\$ 214,952	\$ 188,150	\$ 231,488
Gross margin	\$ 103,403	\$ 81,134	\$ 62,767	\$ 48,333	\$ 73,502
Selling, general and administrative	\$ 64,853	\$ 51,672	\$ 45,477	\$ 40,042	\$ 47,242
Depreciation and amortization	\$ 10,078	\$ 8,095	\$ 4,784	\$ 5,750	\$ 6,949
Acquisition costs	\$ 1,871	\$ 1,249	\$ 993	\$ --	\$ --
Adjustment to fair value of contingent consideration	\$ 517	\$ 1,586	\$ (4)	\$ --	\$ --
Impairment of intangible assets	\$ --	\$ --	\$ --	\$ --	\$ 1,633
Income from operations	\$ 26,084	\$ 18,532	\$ 11,517	\$ 2,541	\$ 17,678
Net interest (expense) income	\$ (143)	\$ 68	\$ 163	\$ 209	\$ 528
Net other income (expense)	\$ 44	\$ 45	\$ 68	\$ 260	\$ (915)
Income before income taxes	\$ 25,985	\$ 18,645	\$ 11,748	\$ 3,010	\$ 17,291
Net income	\$ 16,107	\$ 10,747	\$ 6,480	\$ 1,463	\$ 10,000
Basic net income per share	\$ 0.54	\$ 0.39	\$ 0.24	\$ 0.05	\$ 0.34
Diluted net income per share	\$ 0.52	\$ 0.37	\$ 0.23	\$ 0.05	\$ 0.33

	As of December 31,				
	2012	2011	2010	2009	2008
<b>Balance Sheet Data:</b>	(In thousands)				
Cash, cash equivalents, and short-term investments	\$ 5,813	\$ 9,732	\$ 24,008	\$ 24,302	\$ 22,909
Working capital	\$ 52,277	\$ 51,476	\$ 47,632	\$ 50,205	\$ 56,176
Long-term investments	\$ --	\$ --	\$ 2,254	\$ 3,652	\$ --
Property and equipment, net	\$ 4,398	\$ 3,490	\$ 2,355	\$ 1,278	\$ 2,345
Goodwill and intangible assets, net	\$ 178,286	\$ 142,166	\$ 124,056	\$ 111,773	\$ 115,634
Total assets	\$ 267,194	\$ 223,932	\$ 207,678	\$ 184,810	\$ 194,247
Long-term debt	\$ 2,800	\$ --	\$ --	\$ --	\$ --
Total stockholders' equity	\$ 234,413	\$ 198,959	\$ 177,164	\$ 168,348	\$ 174,818

**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, 2012 compared to 11% and 13% for the years ended December 31, 2011 and 2010, 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 concludes that the separation criteria are met, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of our multiple element arrangements meet these criteria and are accounted for separately, with the arrangement consideration allocated among the deliverables using vendor-specific objective evidence of the selling price. As a result, we generally recognize software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

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

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

## *Cost of revenues*

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

## *Gross Margins*

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

### *Selling, General, and Administrative Expenses*

Selling, general and administrative (“SG&A”) expenses are primarily composed of sales-related costs, general and administrative salaries, stock compensation expense, recruiting expense, office costs, bad debts, variable compensation costs, and other miscellaneous expenses. We work to minimize selling costs by focusing on repeat business with existing clients and by accessing sales leads generated by our software vendors, most notably IBM, Oracle and Microsoft, whose products we use to design and implement solutions for our clients. These relationships enable us to reduce our selling costs and sales cycle times and increase win rates through leveraging our partners’ marketing efforts and endorsements.

### *Plans for Growth and Acquisitions*

Our goal is to continue to build one of the leading independent information technology consulting firms by expanding our relationships with existing and new clients and through the continuation of our disciplined acquisition strategy. Our future growth plan includes expanding our business with a primary focus on customers in the United States, both organically and through acquisitions. Given the economic conditions during 2008 and 2009 we suspended acquisition activity pending improved visibility into the health of the economy. With the return to growth in 2010, we resumed our disciplined acquisition strategy as evidenced by our acquisitions of Kerdock Consulting, LLC (“Kerdock”) in March 2010, speakTECH in December 2010, Exervio in April 2011, JCB Partners, LLC (“JCB”) in July 2011, PointBridge in February 2012, Nascent in June 2012, and Northridge in July 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.

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

### **Results of Operations**

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

Revenues:	2012	2011	2010
Services revenues	87.6%	88.8%	86.1%
Software and hardware revenues	7.7	6.0	9.6
Reimbursable expenses	4.7	5.2	4.3
Total revenues	100.0	100.0	100.0
Cost of revenues (depreciation and amortization, shown separately below):			
Project personnel costs	55.9	56.9	55.5
Software and hardware costs	6.6	5.2	8.4
Reimbursable expenses	4.7	5.2	4.3
Other project-related expenses	1.2	1.8	2.6
Total cost of revenues	68.4	69.1	70.8
Services gross margin	34.8	33.9	32.6
Software and hardware gross margin	14.5	13.5	11.9
Total gross margin	31.6	30.9	29.2
Selling, general and administrative	19.8	19.7	21.2
Depreciation and amortization	3.1	3.1	2.2
Acquisition costs	0.6	0.5	0.5
Adjustment to fair value of contingent consideration	0.2	0.5	0.0
Income from operations	7.9	7.1	5.3
Net interest income	0.0	0.0	0.1
Net other income	0.0	0.0	0.0
Income before income taxes	7.9	7.1	5.4
Provision for income taxes	3.0	3.0	2.5
Net income	4.9%	4.1%	2.9%

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

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

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

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

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

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

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

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

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

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

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

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

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

**Provision for Income Taxes.** We provide for federal, state, and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate decreased to 38.0% for the year ended December 31, 2012 from 42.4% for the year ended December 31, 2011. The decrease in the effective rate was due primarily to a research and development tax credit on our 2011 income tax return recorded in 2012 when it was determinable and reasonably estimable. The research and development tax credit for 2012 was enacted by Congress in January 2013 and the resulting tax benefit will be estimated and recorded in 2013.

#### **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	\$ 34,949	\$ 13,044
Software and Hardware Revenues	15,624	20,556	(4,932)	1,215	(6,147)
Reimbursable Expenses	13,649	9,223	4,426	1,107	3,319
Total Revenues	\$ 262,439	\$ 214,952	\$ 47,487	\$ 37,271	\$ 10,216

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 \$13.1 million while services revenues attributable to acquired companies increased \$34.9 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 \$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 revenues was 0.7% 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.

## Liquidity and Capital Resources

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

	As of December 31,		
	2012	2011	2010
Cash, cash equivalents, and investments	\$ 5.8	\$ 9.7	\$ 26.3
Working capital (including cash and cash equivalents)	\$ 52.3	\$ 51.5	\$ 47.6
Amounts available under credit facilities	\$ 47.2	\$ 50.0	\$ 50.0

### Net Cash Provided By Operating Activities

Net cash provided by operating activities for the year ended December 31, 2012 was \$39.2 million compared to \$14.3 million and \$18.7 million for the years ended December 31, 2011 and 2010, respectively. For the year ended December 31, 2012, the components of operating cash flows were net income of \$16.1 million plus non-cash charges of \$18.5 million and net working capital reductions of \$4.6 million. The primary components of operating cash flows for the year ended December 31, 2011 were net income of \$10.7 million plus non-cash charges of \$17.6 million, partially offset by investments in working capital of \$14.0 million. 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 increase in cash resulting from operating activities as of December 31, 2012 is primarily related to the increase in accounts payable and other liabilities and decrease in accounts receivable. Accounts payable and other liabilities increased due to having higher accrued software costs and variable compensation liabilities during 2012. Our days sales outstanding as of December 31, 2012 decreased to 75 days compared to 78 and 73 days as of December 31, 2011 and 2010, respectively.

### Net Cash Used in Investing Activities

For the year ended December 31, 2012, we used \$36.6 million for acquisitions and \$2.1 million for purchases of equipment and to develop certain software. For the year ended December 31, 2011, we used \$19.4 million for acquisitions, \$3.0 million primarily on leasehold improvements and to develop certain software, offset by \$13.6 million in proceeds received from the sale and maturity of our investments. For the year ended December 31, 2010, we used \$4.3 million to purchase investments, \$4.9 million for acquisitions, and \$1.3 million to purchase equipment and develop software.

### Net Cash Provided By Financing Activities

For the year ended December 31, 2012, we received proceeds of \$134.9 million from our line of credit and we realized a tax benefit of \$1.1 million related to vesting of stock awards and stock option exercises plus proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan of \$0.2 million. We made payments of \$132.1 million on our line of credit, used \$6.1 million to repurchase shares of our common stock through the stock repurchase program, \$1.9 million to remit taxes withheld as part of a net share settlement of restricted stock vesting, and \$0.6 million to settle a portion of the contingent consideration for the purchase of Exervio. During the year ended December 31, 2011, we received proceeds of \$3.7 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized an excess tax benefit of \$1.8 million related to vesting of stock awards and stock option exercises. We used \$1.2 million to settle the contingent consideration for the purchase of speakTECH, \$11.8 million to repurchase shares of our common stock through the stock repurchase program, \$0.8 million to remit taxes withheld as part of a net share settlement of restricted stock vesting, and \$0.3 million in fees related to our credit facility. 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.

### Availability of Funds from Line of Credit Facility

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 \$1.0 million 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, 2012) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.209% on December 31, 2012) 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, 2012, we had \$47.2 million of maximum borrowing capacity. We incur an annual commitment fee of 0.30% on the unused portion of the line of credit.

At December 31, 2012, we were in compliance with all covenants under the Credit Agreement and we expect to remain in compliance during the next 12 months.

### ***Stock Repurchase Program***

Prior to 2012, our Board of Directors authorized the repurchase of up to \$60.0 million of our common stock. In May 2012, our Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$70.0 million at December 31, 2012. The repurchase program expires December 31, 2013.

From time to time, we establish a written trading plan in accordance with Rule 10b5-1 of the Exchange Act, pursuant to which we make a portion of our stock repurchases. Additional repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions in compliance with Rule 10b-18 of the Exchange Act, subject to market conditions, applicable legal requirements, and other factors.

Since the program's inception on August 11, 2008, we have repurchased approximately \$60.0 million of our outstanding common stock through December 31, 2012.

### ***Lease Obligations***

There were no material changes outside the ordinary course of business in lease obligations or other contractual obligations in 2012 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, 2012 (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	\$ 13,773	\$ 3,661	\$ 5,251	\$ 3,594	\$ 1,267
Total	\$ 13,773	\$ 3,661	\$ 5,251	\$ 3,594	\$ 1,267

### ***Conclusion***

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

Of the total cash and cash equivalents reported on the consolidated balance sheet as of December 31, 2012 of \$5.8 million, approximately \$3.6 million was held by the Company's Chinese operations and is considered to be indefinitely reinvested in those operations. The Company has no intention of repatriating cash from its Chinese operations in the foreseeable future.

We believe that the currently available funds, access to capital from our credit facility, and cash flows generated from operations will be sufficient to meet our working capital requirements and other capital needs for the next 12 months.



## Critical Accounting Policies

Our accounting policies are described in Note 2, *Summary of Significant Accounting Policies*, in the Notes to Consolidated Financial Statements. We believe our most critical accounting policies include revenue recognition, accounting for goodwill and intangible assets, purchase accounting, accounting for stock-based compensation, and income taxes.

### *Revenue Recognition and Allowance for Doubtful Accounts*

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

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

Revenues are recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists; (2) fees are fixed and determinable; (3) delivery and acceptance have occurred; and (4) collectability is deemed probable. Our policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same customer is in accordance with Accounting Standards Board Accounting Standards Codification (“ASC”) Subtopic 985-605, *Software – Revenue Recognition*, ASC Subtopic 605-25, *Revenue Recognition – Multiple-Element Arrangements*, and ASC Section 605-10-S99 (Staff Accounting Bulletin Topic 13, *Revenue Recognition*). Specifically, if we enter into contracts for the sale of services and software or hardware, then we evaluate whether each element should be accounted for separately by considering the following criteria: (1) whether the deliverables have value to the client on a stand-alone basis; and (2) whether delivery or performance of the undelivered item or items is considered probable and substantially in our control (only if the arrangement includes a general right of return related to the delivered item). Further, for sales of software and services, we also evaluate whether the services are essential to the functionality of the software and we have fair value evidence for each deliverable. If we have concluded that the separation criteria are met, then we account for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of our multiple element arrangements meet these criteria and are accounted for separately, with the arrangement consideration allocated among the deliverables using vendor-specific objective evidence of the selling price. As a result, we generally recognize software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

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

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

We may provide multiple services under the terms of an arrangement and we are required to assess whether one or more units of accounting are present. Service fees are typically accounted for as one unit of accounting, as fair value evidence for individual tasks or milestones is not available. We follow the guidelines discussed above in determining revenues; however, certain judgments and estimates are made and used to determine revenues recognized in any accounting period. If estimates are revised, material differences may result in the amount and timing of revenues recognized for a given period.

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

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

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

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

Our annual goodwill impairment test was performed as of October 1, 2012. 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 Consolidated Statements of Operations. The Company periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in a lack of recoverability or revised useful life.

#### *Purchase Accounting*

We allocate the purchase price of our acquisitions to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such fair market value assessments require significant judgments and estimates that can change materially as additional information becomes available. The purchase price is allocated to intangibles based on our estimate and an independent valuation. We finalize the purchase price allocation within 12 months of the acquisition date as certain initial accounting valuation estimates are finalized.

## *Accounting for Stock-Based Compensation*

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

## *Income Taxes*

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

## **Recently Adopted Accounting Pronouncements**

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

## **Off-Balance Sheet Arrangements**

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

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

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

### *Exchange Rate Sensitivity*

We are exposed to market risks associated with changes in foreign currency exchange rates because we generate a portion of our revenues and incur a portion of our expenses in currencies other than the U.S. dollar. As of December 31, 2012, we were exposed to changes in exchange rates between the U.S. dollar and the Canadian dollar, between the U.S. dollar and the Chinese Yuan, and between the U.S. dollar and the Indian Rupee. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars. Our exposure to foreign currency risk is not significant.

### *Interest Rate Sensitivity*

As of December 31, 2012, there was \$2.8 million outstanding and \$47.2 million of available borrowing capacity under our line of credit facility. Our interest expense will fluctuate as the interest rate for the line of credit floats based, at our option, on our lead lender's prime rate plus a margin or the one-month LIBOR rate plus a margin. Based on the \$2.8 million outstanding on the line of credit as of December 31, 2012, an increase in the interest rate of 100 basis points would add \$28,000 of interest expense per year, which is not considered material to our financial position or results of operations.

We had unrestricted cash and cash equivalents totaling \$5.8 million at December 31, 2012 and \$9.7 million at December 31, 2011. 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, 2012 AND 2011**

	December 31,	
	2012	2011
	(In thousands, except share information)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 5,813	\$ 9,732
Accounts receivable, net of allowance for doubtful accounts of \$724 in 2012 and \$1,057 in 2011	69,662	60,892
Prepaid expenses	1,649	1,246
Other current assets	3,717	3,118
Total current assets	80,841	74,988
Property and equipment, net	4,398	3,490
Goodwill	160,936	132,038
Intangible assets, net	17,350	10,128
Other non-current assets	3,669	3,288
Total assets	\$ 267,194	\$ 223,932
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,959	\$ 5,029
Other current liabilities	20,605	18,483
Total current liabilities	28,564	23,512
Long-term debt	2,800	--
Other non-current liabilities	1,417	1,461
Total liabilities	\$ 32,781	\$ 24,973
Commitments and contingencies (see Note 12)		
Stockholders' equity:		
Common stock (\$0.001 par value per share; 50,000,000 shares authorized and 39,024,337 shares issued and 30,825,123 shares outstanding as of December 31, 2012; 36,217,914 shares issued and 28,742,906 shares outstanding as of December 31, 2011)	\$ 39	\$ 36
Additional paid-in capital	276,201	248,855
Accumulated other comprehensive loss	(306)	(279)
Treasury stock, at cost (8,199,214 shares as of December 31, 2012; 7,475,008 shares as of December 31, 2011)	(62,970)	(54,995)
Retained earnings	21,449	5,342
Total stockholders' equity	234,413	198,959
Total liabilities and stockholders' equity	\$ 267,194	\$ 223,932

*See accompanying notes to consolidated financial statements.*

**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

	Year Ended December 31,		
	2012	2011	2010
Revenues:	(In thousands, except per share information)		
Services	\$ 286,548	\$ 233,166	\$ 185,173
Software and hardware	25,188	15,624	20,556
Reimbursable expenses	15,360	13,649	9,223
Total revenues	327,096	262,439	214,952
Cost of revenues (exclusive of depreciation and amortization, shown separately below):			
Project personnel costs	182,719	149,243	119,304
Software and hardware costs	21,536	13,521	18,108
Reimbursable expenses	15,360	13,649	9,223
Other project-related expenses	4,078	4,892	5,550
Total cost of revenues	223,693	181,305	152,185
Gross margin	103,403	81,134	62,767
Selling, general, and administrative	64,853	51,672	45,477
Depreciation	2,251	1,754	830
Amortization	7,827	6,341	3,954
Acquisition costs	1,871	1,249	993
Adjustment to fair value of contingent consideration	517	1,586	(4)
Income from operations	26,084	18,532	11,517
Net interest (expense) income	(143)	68	163
Net other income	44	45	68
Income before income taxes	25,985	18,645	11,748
Provision for income taxes	9,878	7,898	5,268
Net income	\$ 16,107	\$ 10,747	\$ 6,480
Basic net income per share	\$ 0.54	\$ 0.39	\$ 0.24
Diluted net income per share	\$ 0.52	\$ 0.37	\$ 0.23
Shares used in computing basic net income per share	29,536	27,745	26,856
Shares used in computing diluted net income per share	31,086	29,184	28,304

*See accompanying notes to consolidated financial statements.*

**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In thousands)

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net Income	\$ 16,107	\$ 10,747	\$ 6,480
Other comprehensive income, net of reclassification adjustments:			
Foreign currency translation adjustment	(27)	(35)	23
Net unrealized gain (loss) on investments	--	(19)	25
Comprehensive income	<u>\$ 16,080</u>	<u>\$ 10,693</u>	<u>\$ 6,528</u>

*See accompanying notes to consolidated financial statements.*

**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**  
(In thousands)

	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Treasury Stock</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Stockholders' Equity</b>
Balance at December 31, 2009	27,083	\$ 32	\$ 208,003	\$ (273)	\$ (27,529)	\$ (11,885)	\$ 168,348
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	381	--	1,468	--	--	--	1,468
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 income	--	--	--	--	--	6,480	6,480
Foreign currency translation adjustment	--	--	--	23	--	--	23
Net unrealized gain on investments	--	--	--	25	--	--	25
Balance at December 31, 2010	27,276	\$ 33	\$ 224,966	\$ (225)	\$ (42,205)	\$ (5,405)	\$ 177,164
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	814	1	3,711	--	--	--	3,712
Net tax benefit from stock option exercises and restricted stock vesting	--	--	1,219	--	--	--	1,219
Stock compensation related to restricted stock vesting and retirement savings plan contributions	929	1	9,177	--	--	--	9,178
Purchases of treasury stock and buyback of shares for taxes	(1,378)	--	--	--	(12,790)	--	(12,790)
Issuance of stock for acquisitions	1,102	1	9,782	--	--	--	9,783
Net income	--	--	--	--	--	10,747	10,747
Foreign currency translation adjustment	--	--	--	(35)	--	--	(35)
Net unrealized loss on investments	--	--	--	(19)	--	--	(19)
Balance at December 31, 2011	28,743	\$ 36	\$ 248,855	\$ (279)	\$ (54,995)	\$ 5,342	\$ 198,959
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	56	--	202	--	--	--	202
Net tax benefit from stock option exercises and restricted stock vesting	--	--	855	--	--	--	855
Stock compensation related to restricted stock vesting and retirement savings plan contributions	950	1	9,589	--	--	--	9,590
Purchases of treasury stock and buyback of	(724)	--	--	--	(7,975)	--	(7,975)

shares for taxes							
Issuance of stock for acquisitions	1,800	2	16,700	--	--	--	16,702
Net income	--	--	--	--	--	16,107	16,107
Foreign currency translation adjustment	--	--	--	(27)	--	--	(27)
Balance at December 31, 2012	<u>30,825</u>	<u>\$ 39</u>	<u>\$ 276,201</u>	<u>\$ (306)</u>	<u>\$ (62,970)</u>	<u>\$ 21,449</u>	<u>\$ 234,413</u>

*See accompanying notes to consolidated financial statements.*



**PERFICIENT, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
<b>OPERATING ACTIVITIES</b>			
Net income	\$ 16,107	\$ 10,747	\$ 6,480
Adjustments to reconcile net income to net cash provided by operations:			
Depreciation	2,251	1,754	830
Amortization	7,827	6,341	3,954
Deferred income taxes	(613)	531	205
Non-cash stock compensation and retirement savings plan contributions	9,590	9,178	10,831
Tax benefit from stock option exercises and restricted stock vesting	(1,061)	(1,838)	(1,531)
Adjustment to fair value of contingent consideration for purchase of business	517	1,586	(4)
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	(818)	(7,587)	(5,491)
Other assets	1,074	(320)	1,626
Accounts payable	2,190	(1,522)	642
Other liabilities	2,147	(4,550)	1,189
Net cash provided by operating activities	39,211	14,320	18,731
<b>INVESTING ACTIVITIES</b>			
Proceeds from maturity of investments	--	13,555	--
Purchase of investments	--	--	(4,252)
Purchase of property and equipment	(1,923)	(2,776)	(1,161)
Capitalization of software developed for internal use	(187)	(179)	(160)
Purchase of businesses	(36,560)	(19,385)	(4,941)
Net cash used in investing activities	(38,670)	(8,785)	(10,514)
<b>FINANCING ACTIVITIES</b>			
Payments for credit facility financing fees	--	(306)	--
Proceeds from line of credit	134,900	14,000	--
Payments on line of credit	(132,100)	(14,000)	--
Payment of contingent consideration for purchase of business	(556)	(1,244)	(1,875)
Tax benefit from stock option exercises and restricted stock vesting	1,061	1,838	1,531
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	202	3,712	1,468
Purchases of treasury stock	(6,118)	(11,791)	(14,676)
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(1,857)	(747)	--
Net cash used in financing activities	(4,468)	(8,538)	(13,552)
Effect of exchange rate on cash and cash equivalents	8	28	67
Change in cash and cash equivalents	(3,919)	(2,975)	(5,268)
Cash and cash equivalents at beginning of period	9,732	12,707	17,975
Cash and cash equivalents at end of period	<u>\$ 5,813</u>	<u>\$ 9,732</u>	<u>\$ 12,707</u>
<b>Supplemental disclosures:</b>			
Cash paid for interest	\$ 168	\$ 5	\$ 22
Cash paid for income taxes	\$ 9,687	\$ 7,810	\$ 4,265
<b>Non-cash activities:</b>			
Stock issued for purchase of businesses (net of stock reacquired for escrow claim)	\$ 14,411	\$ 6,616	\$ 2,859
Stock issued for settlement of contingent consideration for purchase of business	\$ 2,199	\$ 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, 2012**

**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**

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 Accounting Standards Codification (“ASC”) Subtopic 985-605, *Software – Revenue Recognition*, ASC Subtopic 605-25, *Revenue Recognition – Multiple-Element Arrangements*, and ASC Section 605-10-S99 (Staff Accounting Bulletin Topic 13, *Revenue Recognition*). Specifically, if 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.

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.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

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 10 to 30 days' notice is required). The client is responsible for any time and expenses incurred up to the date of cancellation or termination of the contract.

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.

#### **Allowance for Doubtful Accounts**

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.

#### **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.

#### **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.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consist of all cash balances and liquid investments with original maturities of three months or less.

#### **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 and Intangible 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. ASC Topic 350 permits, but does not require, an assessment of qualitative factors to determine whether it is more likely than not that the fair value is less than the carrying amount of the Company before applying the two-step goodwill impairment test. If it is more likely than not that the fair value is less than the carrying amount of the Company, the two-step goodwill impairment test will be conducted. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. The Company has elected to go directly to step one rather than making a more-likely-than-not assessment based on an evaluation of qualitative factors.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

The Company performed its annual impairment test of goodwill as of October 1, 2012. 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.

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 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.

#### **Fair Value of Financial Instruments**

Cash equivalents, accounts receivable, accounts payable, and other accrued liabilities 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.

#### **Recently Adopted Accounting Pronouncements**

Effective January 1, 2012, the Company adopted 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. ASU 2011-05 does not change the items that must be reported in other comprehensive income. The adoption of ASU 2011-05 did not impact the accounting for comprehensive income, but did affect the presentation of components of comprehensive income by eliminating the practice of showing these items within the Consolidated Statement of Stockholders' Equity.

Effective January 1, 2012, the Company adopted 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. The adoption of ASU 2011-08 did not have a material impact on the Company's consolidated financial statements.

#### **3. Net Income 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.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

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

	Year Ended December 31,		
	2012	2011	2010
Net income	\$ 16,107	\$ 10,747	\$ 6,480
Basic:			
Weighted-average shares of common stock outstanding	29,536	27,745	26,856
Shares used in computing basic net income per share	29,536	27,745	26,856
Effect of dilutive securities:			
Stock options	194	279	659
Warrants (1)	--	5	7
Restricted stock subject to vesting	621	578	774
Contingently issuable shares (2)	81	222	--
Shares issuable for acquisition consideration (3)	654	355	8
Shares used in computing diluted net income per share	31,086	29,184	28,304
Basic net income per share	\$ 0.54	\$ 0.39	\$ 0.24
Diluted net income per share	\$ 0.52	\$ 0.37	\$ 0.23
Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share	12	278	538

(1) All outstanding warrants expired on December 30, 2011.

(2) Represents the Company's estimate of shares to be issued to 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 Agreements and Plans of Merger with speakTECH and Northridge Systems, Inc. ("Northridge") and pursuant to the Asset Purchase Agreements with PointBridge Solutions, LLC ("PointBridge") and Nascent Systems, LP ("Nascent") 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. Investments

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, 2012, the Company's investments consisted of cash equivalents with original maturities of three months or less.

#### 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 2012, 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 2012, 2011 or 2010.

#### 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 2012, 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 \$3.3 million, \$3.2 million, and \$2.5 million of expense for the matching cash and Company stock contribution in 2012, 2011, and 2010, respectively. All matching contributions vest over a three-year period of service.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

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, 2012 and 2011, the deferred compensation liability balance was \$1.7 million and \$1.6 million, respectively.

**7. Business Combinations**

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 was based in Charlotte, North Carolina and was a business and management consulting firm focused on program and project management, process improvement, and data/business analytics. The acquisition of Exervio enhanced the Company's management consulting skills and qualifications, as well as extended the Company's presence in North Carolina and Georgia.

The Company estimated the total allocable purchase price consideration to be \$11.2 million. The purchase price estimate was 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 fair value estimate of additional earnings-based contingent consideration, which was partially realized by the Exervio selling shareholders 12 months after the closing date of the acquisition, and the remainder realized 18 months after the closing date of the acquisition. Of the earnings-based contingent consideration, 25% was paid in cash and 75% in stock to the Exervio selling shareholders. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred. The results of the Exervio operations have been included in the Company's consolidated financial statements since the acquisition date.

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

Acquired tangible assets	\$ 2.7
Acquired intangible assets	4.5
Liabilities assumed	(1.2)
Goodwill	5.2
Total purchase price	<u>\$ 11.2</u>

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

Acquisition of JCB Partners, LLC ("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 was based in Denver, Colorado and was 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 further enhanced the Company's position in business intelligence and enterprise performance management and increased access to CFO suites, as well as extended the Company's presence in Denver, Chicago, and California.

The Company estimated the total allocable purchase price consideration to be \$16.6 million. The purchase price estimate was 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 results of the JCB operations have been included in the Company's consolidated financial statements since the acquisition date.

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

Acquired tangible assets	\$ 3.1
Acquired intangible assets	3.0
Liabilities assumed	(1.2)
Goodwill	11.7
Total purchase price	<u>\$ 16.6</u>

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

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

Acquisition of PointBridge

On February 8, 2012, the Company acquired substantially all of the assets of PointBridge pursuant to the terms of an Asset Purchase Agreement. PointBridge was based in Chicago, Illinois, and was a business and technology consulting firm focused on collaboration, web content management, unified communications and business intelligence, primarily leveraging Microsoft technologies. The acquisition of PointBridge further solidified the Company's position among the largest and most capable Microsoft systems integrator consulting firms, as well as extended the Company's presence in Chicago, Milwaukee and Boston.

The Company has initially estimated the total allocable purchase price consideration to be \$20.5 million. The initial purchase price estimate is comprised of \$14.4 million in cash paid and \$6.1 million of Company common stock issued at closing. The Company incurred approximately \$0.7 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	\$ 5.0
Acquired intangible assets	6.2
Liabilities assumed	(1.1)
Goodwill	10.4
Total purchase price	<u>\$ 20.5</u>

The Company estimated that the intangible assets acquired have useful lives of 11 months to five years.

The amounts above represent the fair value estimates as of December 31, 2012 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 Nascent

On June 1, 2012, the Company acquired substantially all of the assets of Nascent pursuant to the terms of an Asset Purchase Agreement. Nascent was based in Dallas, Texas, and was a full-service software evaluation and implementation firm that specialized in working with the Oracle E-Business Suite and Vertex for sales, use and value added taxes. The acquisition of Nascent allowed the Company significant cross-selling and growth opportunity within the existing client base with Oracle E-Business Suite, as well as extended the Company's presence in Texas, Oklahoma, Louisiana, and Arkansas.

The Company has initially estimated the total allocable purchase price consideration to be \$16.5 million. The initial purchase price estimate is comprised of \$11.3 million in cash paid and \$5.2 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	\$ 3.9
Acquired intangible assets	4.4
Liabilities assumed	(1.0)
Goodwill	9.2
Total purchase price	<u>\$ 16.5</u>

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

The amounts above represent the fair value estimates as of December 31, 2012 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.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

Acquisition of Northridge

On July 1, 2012, the Company acquired Northridge pursuant to the terms of an Agreement and Plan of Merger. Northridge was based in Atlanta, Georgia, and was an expert in the areas of business consulting, user experience, and collaboration technology primarily leveraging Microsoft technologies. The acquisition of Northridge further enhanced the Company's portfolio of services in collaboration strategy, portal migration and implementation, dashboards and analytics, user experience and branding, collaborative websites, and custom collaboration solutions utilizing Microsoft systems, as well as extended the Company's presence in the Atlanta and Charlotte markets.

The Company has initially estimated the total allocable purchase price consideration to be \$13.9 million. The initial purchase price estimate is comprised of \$10.7 million in cash paid and \$3.2 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	\$ 3.5
Acquired intangible assets	4.1
Liabilities assumed	(3.3)
Goodwill	9.6
Total purchase price	<u>\$ 13.9</u>

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

The amounts above represent the fair value estimates as of December 31, 2012 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 PointBridge, Nascent, and Northridge operations have been included in the Company's consolidated financial statements since the respective acquisition dates.

The aggregate amounts of revenue and net income of PointBridge, Nascent, and Northridge included in the Company's Consolidated Statements of Operations from the respective acquisition dates to December 31, 2012 are as follows (in thousands):

	<b>Acquisition Date to December 31, 2012</b>
Revenues	\$ 32,424
Net income	\$ 1,804

Pro-forma Results of Operations (Unaudited)

The following presents the unaudited pro-forma combined results of operations of the Company with PointBridge, Nascent, and Northridge for the year ended December 31, 2012 and Exervio, JCB, PointBridge, Nascent, and Northridge for the year ended December 31, 2011, after giving effect to certain pro-forma adjustments related to the amortization of acquired intangible assets and assuming PointBridge, Nascent, and Northridge were acquired as of the beginning of 2011 and 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, 2011 or January 1, 2010 or of future results of operations of the consolidated entities (in thousands except per share data):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
Revenues	\$ 342,226	\$ 319,527
Net income	\$ 18,991	\$ 13,278
Basic net income per share	\$ 0.63	\$ 0.46
Diluted net income per share	\$ 0.61	\$ 0.43
Shares used in computing basic net income per share	30,216	28,647
Shares used in computing dilute net income per share	31,086	30,766



**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

**8. Goodwill and Intangible Assets**

*Goodwill*

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

	<b>2012</b>	<b>2011</b>
Balance, beginning of year	\$ 132,038	\$ 115,227
Preliminary purchase price allocations for acquisitions (Note 7)	29,132	17,169
Purchase accounting adjustments	(234)	(358)
Balance, end of year	<u>\$ 160,936</u>	<u>\$ 132,038</u>

*Intangible Assets with Definite Lives*

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

	<b>Year ended December 31,</b>					
	<b>2012</b>			<b>2011</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Customer relationships	\$ 22,682	\$ (7,299)	\$ 15,383	\$ 20,713	\$ (11,976)	\$ 8,737
Non-compete agreements	1,156	(425)	731	1,073	(309)	764
Customer backlog	306	(184)	122	--	--	--
Trade name	265	(204)	61	152	(84)	68
Internally developed software	1,642	(589)	1,053	1,036	(477)	559
Total	<u>\$ 26,051</u>	<u>\$ (8,701)</u>	<u>\$ 17,350</u>	<u>\$ 22,974</u>	<u>\$ (12,846)</u>	<u>\$ 10,128</u>

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

Customer relationships	2 – 7 years
Non-compete agreements	1 – 5 years
Internally developed software	3 – 5 years
Trade name	1 – 3 years
Customer backlog	7 – 11 months

The weighted average amortization periods for customer relationships and non-compete agreements are five years and four years, respectively. Total amortization expense for the years ended December 31, 2012, 2011, and 2010 was approximately \$7.8 million, \$6.3 million, and \$4.0 million, respectively.

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

2013	\$ 5,906
2014	\$ 4,664
2015	\$ 3,128
2016	\$ 2,516
2017	\$ 1,013
Thereafter	\$ 123

**9. Stock-Based Compensation**

**Stock Option Plans**

The Company made various award grants under the 2009 Long-Term Incentive Plan prior to May 2012. In May 2012, the Company's stockholders approved the 2012 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 2.5 million shares, to eligible individuals. The Compensation Committee of the Board of Directors administers the Incentive Plan and determines the terms of all stock awards made under the Incentive Plan.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

Stock option activity for the year ended December 31, 2012 was as follows (in thousands, except exercise price and remaining contractual terms information):

	<b>Shares</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Terms (In Years) (1)</b>	<b>Aggregate Intrinsic Value</b>
Options outstanding at December 31, 2011	358	\$ 4.61	2.50	\$ 1,932
Options exercised (2)	(47)	2.12		\$ 441
Options canceled	(8)	1.45		
Options outstanding at December 31, 2012	303	\$ 5.08	1.69	\$ 2,027
Options vested, December 31, 2012	303	\$ 5.08	1.69	\$ 2,027

- (1) Generally stock options have a maximum contractual term of 10 years.  
(2) The total aggregate intrinsic value of stock options exercised during 2011 and 2010 was \$5.6 million and \$2.5 million, respectively.

Restricted stock activity for the year ended December 31, 2012 was as follows (in thousands, except fair value information):

	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
Restricted stock awards outstanding at December 31, 2011	2,043	\$ 9.16
Awards granted (1)	869	\$ 11.31
Awards vested (2)	(826)	\$ 9.59
Awards forfeited	(147)	\$ 8.91
Restricted stock awards outstanding at December 31, 2012	1,939	\$ 9.93

- (1) The weighted average grant date fair value of shares granted during 2011 and 2010 was \$10.31 and \$10.42, respectively.  
(2) The total fair value of restricted shares vesting during the years ended December 31, 2012, 2011 and 2010 was \$9.7 million, \$7.8 million and \$9.3 million, respectively.

The Company recognized \$9.6 million, \$9.2 million, and \$10.8 million of share-based compensation expense during 2012, 2011 and 2010, respectively, which included \$1.4 million, \$1.1 million, and \$0.9 million of expense for retirement savings plan contributions, respectively. The associated current and future income tax benefit recognized during 2012, 2011 and 2010 was \$3.2 million, \$3.1 million, and \$3.8 million, respectively. As of December 31, 2012, there was \$15.7 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 two years. Generally restricted stock awards vest over a three to five year requisite service period.

#### **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, 2012, approximately 9,100 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.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

**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, 2012) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.209% on December 31, 2012) 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, 2012, the Company had \$47.2 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 (the “IRS”) has completed examinations of the Company’s U.S. income tax returns or the statute has passed on returns for the years through 2007. As of December 31, 2012, the IRS has proposed no significant adjustments to any of the Company’s tax positions. The Company was notified in January 2013 that its 2011 U.S. income tax return will be audited by the IRS.

Under the provisions of the ASC Subtopic 740-10-25, *Income Taxes - Recognition*, the Company had an unrecognized tax benefit of \$80,000 as of December 31, 2012. The Company had no unrecognized tax benefits as of December 31, 2011.

As of December 31, 2012, the Company had U.S. Federal tax net operating loss carry forwards of approximately \$4.9 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,		
	2012	2011	2010
Current:			
Federal	\$ 8,405	\$ 6,358	\$ 4,009
State	1,704	996	1,043
Foreign	382	13	11
Total current	10,491	7,367	5,063
Deferred:			
Federal	(581)	487	192
State	(32)	44	13
Total deferred	(613)	531	205
Total provision for income taxes	\$ 9,878	\$ 7,898	\$ 5,268

The components of pretax income for the years ended December 31, 2012, 2011 and 2010 are as follows (in thousands):

	Year Ended December 31,		
	2012	2011	2010
Domestic	\$ 23,533	\$ 17,614	\$ 9,770
Foreign	2,452	1,031	1,978
Total	\$ 25,985	\$ 18,645	\$ 11,748

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

For the year ended December 31, 2012, 2011 and 2010, 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, 2012 and 2011 are as follows (in thousands):

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
<b>Deferred tax assets:</b>		
Accrued liabilities	\$ 849	\$ 804
Bad debt reserve	280	297
Net operating losses	1,908	2,258
Deferred compensation	1,936	1,908
Intangibles	3,256	2,382
Acquisition-related costs	529	295
<b>Total deferred tax assets</b>	<b>8,758</b>	<b>7,944</b>
<b>Deferred tax liabilities:</b>		
Prepaid expenses	421	403
Equity in undistributed foreign earnings	125	123
Goodwill	5,893	6,367
Accrued liabilities	18	34
Fixed assets	786	87
<b>Total deferred tax liabilities</b>	<b>7,243</b>	<b>7,014</b>
<b>Net deferred tax asset</b>	<b>\$ 1,515</b>	<b>\$ 930</b>

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

	<b>Year Ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Federal statutory rate	35.0%	34.6%	34.2%
State taxes, net of federal benefit	4.4	4.1	5.7
Effect of foreign operations	(1.8)	(0.9)	(3.7)
Stock compensation	1.8	1.4	4.5
Non-deductible acquisition costs	0.8	2.1	1.7
Research and development tax credit	(2.7)	--	--
Other	0.5	1.1	2.4
<b>Effective tax rate</b>	<b>38.0%</b>	<b>42.4%</b>	<b>44.8%</b>

The effective income tax rate decreased to 38.0% for the year ended December 31, 2012 from 42.4% for the year ended December 31, 2011 primarily due to the research and development tax credit taken on the Company's 2011 income tax return filed during the third quarter of 2012.

## **12. Commitments and Contingencies**

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.

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

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, 2012 are as follows (in thousands):

	<b>Operating Leases</b>
2013	\$ 3,661
2014	2,985
2015	2,266
2016	2,074
2017	1,520
Thereafter	1,267
<b>Total minimum lease payments</b>	<b>\$ 13,773</b>

Rent expense for the years ended December 31, 2012, 2011, and 2010 was approximately \$3.8 million, \$2.9 million, and \$2.5 million, respectively.

**13. Balance Sheet Components**

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	(In thousands)	
<b>Accounts receivable:</b>		
Accounts receivable	\$ 49,661	\$ 44,438
Unbilled revenues	20,725	17,511
Allowance for doubtful accounts	(724)	(1,057)
<b>Total</b>	<b>\$ 69,662</b>	<b>\$ 60,892</b>
<b>Property and Equipment:</b>		
Computer hardware (useful life of 3 years)	\$ 6,906	\$ 5,710
Furniture and fixtures (useful life of 5 years)	2,046	1,474
Leasehold improvements (useful life of 5 years)	1,775	1,801
Software (useful life of 1 year)	2,006	1,494
Less: Accumulated depreciation	(8,335)	(6,989)
<b>Total</b>	<b>\$ 4,398</b>	<b>\$ 3,490</b>
<b>Other current liabilities:</b>		
Accrued variable compensation	\$ 8,495	\$ 6,998
Deferred revenues	2,974	1,041
Payroll related costs	2,544	2,504
Accrued subcontractor fees	2,294	2,392
Accrued medical claims expense	1,145	902
Acquired liabilities	64	239
Estimated fair value of contingent consideration liability (Note 7)	--	2,377
Other current liabilities	3,089	2,030
<b>Total</b>	<b>\$ 20,605</b>	<b>\$ 18,483</b>
<b>Other non-current liabilities:</b>		
Deferred compensation liability	\$ 1,383	\$ 1,141
Deferred income taxes	--	309
Other non-current liabilities	34	11
<b>Total</b>	<b>\$ 1,417</b>	<b>\$ 1,461</b>

**PERFICIENT, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**DECEMBER 31, 2012**

**14. Allowance for Doubtful Accounts**

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

	<b>Year ended December 31,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Balance, beginning of year	\$ 1,057	\$ 228	\$ 315
Charges (reductions) to expense	744	1,037	(68)
Uncollected balances written off, net of recoveries	(1,077)	(208)	(19)
Balance, end of year	<u>\$ 724</u>	<u>\$ 1,057</u>	<u>\$ 228</u>

**15. Quarterly Financial Results (Unaudited)**

The following tables set forth certain unaudited supplemental quarterly financial information for the years ended December 31, 2012 and 2011. The quarterly operating results are not necessarily indicative of future results of operations (in thousands except per share data).

	<b>Three Months Ended,</b>			
	<b>March 31, 2012</b>	<b>June 30, 2012</b>	<b>September 30, 2012</b>	<b>December 31, 2012</b>
	<b>(Unaudited)</b>			
Total revenues	\$ 74,698	\$ 81,796	\$ 87,474	\$ 83,128
Gross margin	\$ 22,647	\$ 26,757	\$ 28,227	\$ 25,772
Income from operations	\$ 4,955	\$ 6,554	\$ 7,537	\$ 7,038
Income before income taxes	\$ 4,988	\$ 6,527	\$ 7,449	\$ 7,021
Net income	\$ 2,986	\$ 3,603	\$ 5,142	\$ 4,376
Basic net income per share	\$ 0.10	\$ 0.12	\$ 0.17	\$ 0.14
Diluted net income per share	\$ 0.10	\$ 0.12	\$ 0.16	\$ 0.14

	<b>Three Months Ended,</b>			
	<b>March 31, 2011</b>	<b>June 30, 2011</b>	<b>September 30, 2011</b>	<b>December 31, 2011</b>
	<b>(Unaudited)</b>			
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

## 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, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. We also have audited the Company's internal control over financial reporting as of December 31, 2012, 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 PointBridge Solutions, LLC (PointBridge), Nascent Systems, LP (Nascent), and Northridge Systems, Inc. (Northridge) in February, June, and July 2012, respectively, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, PointBridge's, Nascent's, and Northridge's internal control over financial reporting associated with 19% and 10% 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, 2012. Our audit of internal control over financial reporting of the Company as of December 31, 2012 also excluded an evaluation of the internal control over financial reporting of PointBridge, Nascent, and Northridge.

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, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, 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, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO.

/s/ KPMG LLP

St. Louis, Missouri  
March 6, 2013



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

None.

**Item 9A. Controls and Procedures.**

*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 Rule 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, 2012.

The Company acquired PointBridge in February 2012, Nascent in June 2012 and Northridge in July 2012. 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, 2012. In total, PointBridge, Nascent, and Northridge represented 19% and 10% of the Company's total assets and total revenues, respectively, as of and for the year ended December 31, 2012. Excluding identifiable intangible assets and goodwill recorded in the business combination, PointBridge, Nascent, and Northridge represented 4% of the Company's total assets as of December 31, 2012.

KPMG LLP, our independent registered public accounting firm, has audited our financial statements for the year ended December 31, 2012 included in this Form 10-K, and has issued its report on the effectiveness of internal control over financial reporting as of December 31, 2012, 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, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information.**

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	48	President and Chief Executive Officer
Kathryn J. Henely	48	Chief Operating Officer
Paul E. Martin	52	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 following its 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 as the Company's Chief Operating Officer on November 3, 2009. Ms. Henely joined the Company as a Director in the St. Louis office following its acquisition of Vertecon in April 2002. Ms. Henely was the General Manager of the St. Louis office and the Vice President for the Company's largest business group, which included several local and national business units along with the Company's offshore development center in China. Prior to her appointment to Chief Operating Officer she actively participated in the due diligence and integration of several acquisitions within her business group. Additionally, she led the establishment of the 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 in 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 revenue. 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 board of the St. Louis chapter of Autism Speaks and 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 11. Executive Compensation.**

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

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 Regulation 14A within 120 days of the end of the Company’s fiscal year.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

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 14. Principal Accounting Fees and Services.**

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 15. Exhibits, Financial Statement Schedules.

#### 1. Financial Statements

The following consolidated statements are included in Part III, Item 8 under the following captions:

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#### 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 on page 51.

## 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 7, 2013

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
<u>/s/ Jeffrey S. Davis</u> Jeffrey S. Davis	Director, President and Chief Executive Officer ( <i>Principal Executive Officer</i> )	March 7, 2013
<u>/s/ Paul E. Martin</u> Paul E. Martin	Chief Financial Officer ( <i>Principal Financial Officer and Principal Accounting Officer</i> )	March 7, 2013
<u>/s/ Ralph C. Derrickson</u> Ralph C. Derrickson	Director	March 7, 2013
<u>/s/ John S. Hamlin</u> John S. Hamlin	Director	March 7, 2013
<u>/s/ James R. Kackley</u> James R. Kackley	Director	March 7, 2013
<u>/s/ David S. Lundeen</u> David S. Lundeen	Director	March 7, 2013
<u>/s/ David D. May</u> David D. May	Director	March 7, 2013

## 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*	Amended and Restated Bylaws of Perficient, Inc.
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
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 herein by reference
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 our 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 herein by reference
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 herein by reference
10.7	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
10.8†	Perficient, Inc. 2012 Long-Term Incentive Plan, previously filed with the Securities and Exchange Commission as Appendix A to our Schedule 14A (File No. 001-15169) on April 19, 2012 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
101*	The following financial information from Perficient, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of December 31, 2012 and 2011, (ii) Consolidated Statements of Operations for the years ended December 31, 2012, 2011, and 2010, (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2012, 2011, and 2010, (iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2012, 2011, and 2010, (v) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011, and 2010, and (vi) the Notes to Consolidated Financial Statements

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

\* Filed herewith.



**AMENDED AND RESTATED  
BYLAWS  
OF  
PERFICIENT, INC.,  
A DELAWARE CORPORATION**

**(Adopted October 30, 2012)**

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**AMENDED AND RESTATED  
BYLAWS  
OF PERFCIENT, INC.,  
A DELAWARE CORPORATION**

**ARTICLE I - OFFICES**

**Section 1.1. REGISTERED OFFICE.** The registered office of the corporation shall be the registered office named in the certificate of incorporation of the corporation, or such other office as may be designated from time to time by the Board of Directors in the manner provided by law.

**Section 1.2. OTHER OFFICES.** The corporation may have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require. The books of the corporation may be kept (subject to any provision contained in the Delaware General Corporation Law) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in these Bylaws.

**ARTICLE II - CORPORATE SEAL**

**Section 2.1. CORPORATE SEAL.** The corporate seal shall consist of a die bearing the name of the corporation. Said seal may be used by causing it, or a facsimile thereof, to be impressed or affixed or reproduced or otherwise.

**ARTICLE III - STOCKHOLDERS' MEETINGS**

**Section 3.1. PLACE OF MEETINGS.** Meetings of the stockholders of the corporation shall be held at such place, either within or without the State of Delaware, as may be designated from time to time by the Board of Directors, or, if not so designated, then at the principal executive offices of the corporation.

**Section 3.2. ANNUAL MEETING.**

(a) The annual meeting of the stockholders of the corporation, for the purpose of election of Directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors.

(b) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors; (B) otherwise properly brought before the meeting by or at the direction of the Board of Directors; or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a

stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not less than one hundred twenty (120) calendar days in advance of the date of the Notice of Annual Meeting released to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date contemplated at the time of the previous year's Notice of Annual Meeting, notice by the stockholder to be timely must be so received a reasonable time before the Notice of Annual Meeting is released to stockholders. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business; (iii) the class and number of shares of the corporation which are beneficially owned by the stockholder; (iv) any material interest of the stockholder in such business; and (v) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "1934 ACT"), in such stockholder's capacity as a proponent of a stockholder proposal. Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph. The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph, and, if the chairman should so determine, the chairman shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(c) Only persons who are nominated in accordance with the procedures set forth in this paragraph shall be eligible for election as Directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of stockholders by or at the direction of the Board of Directors or by any stockholder of the corporation entitled to vote in the election of Directors at the meeting who complies with the notice procedures set forth in this paragraph. Such nominations, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation in accordance with the provisions of paragraph (b) of this Section 3.2. Such stockholder's notice shall set forth (i) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a Director: (A) the name, age, business address and residence address of such person; (B) the principal occupation or employment of such person; (C) the class and number of shares of the corporation which are beneficially owned by such person; (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder; and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required in each case pursuant to Regulation 14A under the 1934 Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a Director if elected); and (ii) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (b) of this Section 3.2. At the request of the Board of Directors, any person nominated by a stockholder for election as a Director shall furnish to the Secretary of the corporation that information required to be set forth in the

stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the corporation unless nominated in accordance with the procedures set forth in this paragraph. The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if the chairman should so determine, the chairman shall so declare at the meeting, and the defective nomination shall be disregarded.

### **Section 3.3. SPECIAL MEETINGS.**

(a) Special meetings of the stockholders of the corporation may only be called, for any purpose or purposes, by (i) the Chairman of the Board of Directors, (ii) the President, (iii) the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board of Directors for adoption), or (iv) the Secretary in accordance with paragraph (c) below (each, a "Special Meeting Request").

(b) If a special meeting is called pursuant to paragraph (a) above by any person or persons other than the Board of Directors, the request shall be in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the Chairman of the Board of Directors, the President, or the Secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The Board of Directors shall determine the time and place of such special meeting, which shall be held not less than thirty-five (35) nor more than one hundred twenty (120) days after the date of the receipt of the request. Upon determination of the time and place of the meeting, the officer receiving the request shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 3.4 of these Bylaws. If the notice is not given within sixty (60) days after the receipt of the request, the person or persons requesting the meeting may set the time and place of the meeting and give the notice. Nothing contained in this paragraph (b) shall be construed as limiting, fixing or affecting the time when a meeting of stockholders called by action of the Board of Directors may be held.

(c) A special meeting of the stockholders (a "Stockholder Requested Special Meeting") shall be called by the Secretary upon the written request of the stockholders of record having an aggregate "net long position" (as defined below) of at least twenty-five percent (25%) of the outstanding shares of the corporation, and having held such net long position continuously for at least one year, as of the date of such request (the "Required Percentage"), subject to paragraph (d) below. "Net long position" shall be determined with respect to each requesting stockholder in accordance with the definition set forth in Rule 14e-4 under the Exchange Act, provided that (A) for the purposes of such definition, in determining such stockholder's "short position," that reference in such Rule to "the date that a tender offer is first publicly announced or otherwise made known by the bidder to holders of the security to be acquired" shall be the date of the relevant Special Meeting Request and all dates in the one-year period prior thereto, and the reference to the "the highest tender offer price or stated amount of the consideration offered for the subject security" shall refer to the closing sales price of the corporation's shares on The Nasdaq Global Select Market on such corresponding date (or, if such date is not a trading

day, the immediately preceding trading day) and (B) the net long position of such stockholder shall be reduced by the number of shares as to which such stockholder does not, or will not, have the right to vote or direct the vote at the Stockholder Requested Special Meeting or as to which such stockholder has entered into any derivative or other agreement, arrangement or understanding that hedges or transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such shares. Whether the requesting stockholders have complied with the requirements of this paragraph (c) and related provisions of these Bylaws shall be determined in good faith by the Board of Directors, which determination shall be conclusive and binding on the corporation and the stockholders.

(d) In order for a Stockholder Requested Special Meeting to be called, one or more requests for a special meeting (each, a “Stockholder Special Meeting Request,” and collectively, the “Stockholder Special Meeting Requests”) must be signed by the Required Percentage of stockholders (or their duly authorized agents) and must be delivered to the Secretary. The Stockholder Special Meeting Requests shall be delivered to the Secretary at the principal executive offices of the corporation by registered mail or by telegraphic or other facsimile transmission. Each Stockholder Special Meeting Request shall (A) set forth a statement of the specific purpose(s) of the meeting and the matters proposed to be acted on at it, (B) bear the date of signature of each such stockholder (or duly authorized agent) signing the Stockholder Special Meeting Request, (C) set forth (i) the name and address, as they appear on the corporation’s books, of each stockholder signing such request (or on whose behalf the Stockholder Special Meeting Request is signed), (ii) the class and the number of shares of the corporation which are owned of record and beneficially by the stockholder, (iii) the number of shares as to which such stockholder does not, or will not, have the right to vote or direct the vote at the Stockholder Requested Special Meeting or as to which such stockholder has entered into any derivative or other agreement, arrangement or understanding that hedges or transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of such shares and (iv) include documentary evidence of such stockholder’s record and beneficial ownership of such shares, (D) set forth all information relating to each such stockholder that must be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case, pursuant to Regulation 14A under the Exchange Act and (E) contain the information required by Section 3.2(b) of these Bylaws. Upon the request of the Board of Directors, any requesting stockholder shall provide such additional information the Board of Directors deems reasonably necessary to determine the requesting stockholder’s compliance with Section 3.3(c) of these Bylaws. Any requesting stockholder may revoke such Stockholder Special Meeting Request at any time by written revocation delivered to the Secretary at the principal executive offices of the corporation, and if, following such revocation, there are un-revoked requests from stockholders holding in the aggregate less than the Required Percentage, the Board of Directors, in its discretion, may cancel the special meeting.

(e) Notwithstanding the foregoing, the Secretary shall not be required to call a Stockholder Requested Special Meeting if (A) the Board of Directors calls an annual or special meeting of stockholders to be held not later than sixty (60) days after the date on which a valid Stockholder Special Meeting Request has been delivered to the Secretary (the “Delivery Date”); or (B) the Stockholder Special Meeting Request (i) is received by the Secretary during the period commencing ninety (90) days prior to the first anniversary of the date of the immediately

preceding annual meeting and ending on the date of the next annual meeting; (ii) contains an identical or substantially similar item (a “Similar Item”) to an item that was presented at any meeting of stockholders held within twelve (12) months prior to the Delivery Date (and, for purposes of this clause (ii), the election of directors shall be deemed a “Similar Item” with respect to all items of business involving the election or removal of directors); (iii) relates to an item of business that is not a proper subject for action by the party requesting the special meeting under applicable law; (iv) was made in a manner that involved a violation of Regulation 14A under the Exchange Act or other applicable law; or (v) does not comply with the provisions of this Section 3.3.

(f) Each Stockholder Requested Special Meeting shall be held at such date and time as may be fixed by the Board of Directors; provided, however, that the date of any Stockholder Requested Special Meeting shall be not more than sixty (60) days after the record date for such meeting (the “Meeting Record Date”), which shall be fixed in accordance with Section 7.4 of these Bylaws. Upon determination of the time and place of the meeting, the corporation shall cause notice to be given to the stockholders entitled to vote, in accordance with the provisions of Section 3.4 of these Bylaws. If the notice is not given within sixty (60) days after the Delivery Date, then then such meeting shall be held at 9:00 a.m. local time on the 60th day after the Meeting Record Date at the corporation’s principal executive offices. In fixing a date and time for any Stockholder Requested Special Meeting, the Board of Directors may consider such factors as it deems relevant within the good faith exercise of business judgment, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. Business transacted at any Stockholder Requested Special Meeting shall be limited to the purpose(s) stated in the Stockholder Special Meeting Request; provided, however, that nothing herein shall prohibit the Board of Directors from submitting matters to the stockholders at any Stockholder Requested Special Meeting.

**Section 3.4. NOTICE OF MEETINGS.** Except as otherwise provided by law or the certificate of incorporation of the corporation, as the same may be amended or restated from time to time and including any certificates of designation thereunder (hereinafter, the “CERTIFICATE OF INCORPORATION”), written notice of each meeting of stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder entitled to vote at such meeting, such notice to specify the place, date, time and purpose or purposes of the meeting. Notice of any meeting of stockholders may be waived in writing, signed by the person entitled to notice thereof, either before or after such meeting, and will be waived by any stockholder by his attendance thereat in person or by proxy, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Any stockholder so waiving notice of such meeting shall be bound by the proceedings of any such meeting in all respects as if due notice thereof had been given.

**Section 3.5. QUORUM.** At all meetings of stockholders, except where otherwise provided by statute or by the Certificate of Incorporation, or by these Bylaws, the presence, in person or by proxy duly authorized, of the holders of a majority of the outstanding shares of stock entitled to vote shall constitute a quorum for the transaction of business. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, either by the

chairman of the meeting or by vote of the holders of a majority of the shares represented thereat, but no other business shall be transacted at such meeting. The stockholders present at a duly called or convened meeting, at which a quorum is present, may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, all action taken by the holders of a majority of the votes cast, excluding abstentions, at any meeting at which a quorum is present shall be valid and binding upon the corporation, including, without limitation, in the election of directors. Where a separate vote by a class or classes is required, a majority of the outstanding shares of such class or classes, present in person or represented by proxy, shall constitute a quorum entitled to take action with respect to that vote on that matter and the affirmative vote of the majority of shares of such class or classes present in person or represented by proxy at the meeting shall be the act of such class.

**Section 3.6. ADJOURNMENT AND NOTICE OF ADJOURNED MEETINGS.** Any meeting of stockholders, whether annual or special, may be adjourned from time to time either by the chairman of the meeting or by the vote of a majority of the shares casting votes, excluding abstentions. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than thirty (30) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

**Section 3.7. VOTING RIGHTS.** For the purpose of determining those stockholders entitled to vote at any meeting of the stockholders, except as otherwise provided by law, only persons in whose names shares stand on the stock records of the corporation on the record date, as provided in Section 3.9 of these Bylaws, shall be entitled to vote at any meeting of stockholders. Every person entitled to vote or execute consents shall have the right to do so either in person or by an agent or agents authorized by a written proxy executed by such person or his duly authorized agent, which proxy shall be filed with the Secretary at or before the meeting at which it is to be used. An agent so appointed need not be a stockholder. No proxy shall be voted after three (3) years from its date of creation unless the proxy provides for a longer period. Elections of Directors need not be by written ballot, unless otherwise provided in the Certificate of Incorporation.

**Section 3.8. JOINT OWNERS OF STOCK.** If shares or other securities having voting power stand of record in the names of two (2) or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety, or otherwise, or if two (2) or more persons have the same fiduciary relationship respecting the same shares, unless the Secretary is given written notice to the contrary and is furnished with a copy of the instrument or order appointing them or creating the relationship wherein it is so provided, their acts with respect to voting shall have the following effect: (a) if only one (1) votes, his act binds all; (b) if more than one (1) votes, the act of the majority so voting binds all; or (c) if more than one (1) votes, but the vote is evenly split on any particular matter, each faction may vote the securities in question proportionally, or may apply to the Delaware Court of Chancery for relief as provided in the General Corporation Law of Delaware, Section 217(b). If the instrument filed with the



Secretary shows that any such tenancy is held in unequal interests, a majority or even-split for the purpose of clause (c) shall be a majority or even-split in interest.

**Section 3.9. LIST OF STOCKHOLDERS.** The Secretary shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not specified, at the place where the meeting is to be held. The list shall be produced and kept at the time and place of meeting during the whole time thereof and may be inspected by any stockholder who is present.

**Section 3.10. NO ACTION WITHOUT MEETING.** Effective upon the closing of the corporation's initial public offering (the "Initial Public Offering") of its capital stock pursuant to an effective registration statement filed under the Securities Act of 1933, as amended, the stockholders of the corporation may not take action by written consent without a meeting and must take any actions at a duly called annual or special meeting.

**Section 3.11. ORGANIZATION.**

(a) At every meeting of stockholders, unless another officer of the corporation has been appointed by the Board of Directors, the Chairman of the Board of Directors, or, if a Chairman has not been appointed, is absent, or designates the next senior officer present to so act, the President, or, if the President is absent, the most senior Vice President present, or, in the absence of any such officer, a chairman of the meeting chosen by a majority in interest of the stockholders entitled to vote, present in person or by proxy, shall act as chairman. The Secretary, or, in his absence, an Assistant Secretary directed to do so by the President, shall act as secretary of the meeting.

(b) The Board of Directors of the corporation shall be entitled to make such rules or regulations for the conduct of meetings of stockholders as it shall deem necessary, appropriate or convenient. Subject to such rules and regulations of the Board of Directors, if any, the chairman of the meeting shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are necessary, appropriate or convenient for the proper conduct of the meeting, including, without limitation, establishing an agenda or order of business for the meeting, rules and procedures for maintaining order at the meeting and the safety of those present, limitations on participation in such meeting to stockholders of record of the corporation and their duly authorized and constituted proxies and such other persons as the chairman shall permit, restrictions on entry to the meeting after the time fixed for the commencement thereof, limitations on the time allotted to questions or comments by participants and regulation of the opening and closing of the polls for balloting on matters which are to be voted on by ballot. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with rules of parliamentary procedure.

## ARTICLE IV – DIRECTORS

**Section 4.1. NUMBER AND TERM OF OFFICE; CLASSIFICATION.** The number of directors which shall constitute the whole Board of Directors shall be determined from time to time by the Board of Directors (provided that no decrease in the number of directors which would have the effect of shortening the term of an incumbent director may be made by the Board of Directors), provided that the number of directors shall be not less than one (1). At each annual meeting of stockholders, Directors of the corporation shall be elected to hold office until the next annual meeting of stockholders or until their successors have been duly elected and qualified or until such Director's earlier death, resignation or due removal; except that if any such election shall not be so held, such election shall take place at a stockholders' meeting called and held in accordance with the Delaware General Corporation Law. Directors need not be stockholders unless so required by the Certificate of Incorporation. If, for any reason, the Directors shall not have been elected at an annual meeting, they may be elected as soon thereafter as convenient at a special meeting of the stockholders called for that purpose in the manner provided in these Bylaws.

**Section 4.2. POWERS.** The powers of the corporation shall be exercised, its business conducted and its property controlled by the Board of Directors, except as may be otherwise provided by statute or by the Certificate of Incorporation.

**Section 4.3. VACANCIES AND NEWLY CREATED DIRECTORSHIPS.** Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by vote of a majority of the remaining members of the Board of Directors, although less than a quorum, at any meeting of the Board of Directors, or by a sole remaining Director. Each Director so elected shall hold office for the unexpired portion of the term of the Director whose place shall be vacant and until his or her successor shall have been duly elected and qualified or until such Director's earlier death, resignation or due removal.

**Section 4.4. RESIGNATION.** Any Director may resign at any time by delivering his or her written resignation to the Secretary, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made, it shall be deemed effective at the pleasure of the Board of Directors. When one or more Directors shall resign from the Board of Directors, effective at a future date, a majority of the Directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each Director so chosen shall hold office for the unexpired portion of the term of the Director whose place shall be vacated and until his successor shall have been duly elected and qualified.

**Section 4.5. MEETINGS.**

(a) **ANNUAL MEETINGS.** Unless the Board shall determine otherwise, the annual meeting of the Board of Directors shall be held immediately before or after the annual meeting of stockholders and at the place where such meeting is held. No notice of an annual meeting of the

Board of Directors shall be necessary and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) **REGULAR MEETINGS.** Except as hereinafter otherwise provided, regular meetings of the Board of Directors shall be held in the principal executive offices of the corporation. Unless otherwise restricted by the Certificate of Incorporation, regular meetings of the Board of Directors may also be held at any place within or without the State of Delaware which has been designated by resolution of the Board of Directors or the written consent of all directors.

(c) **SPECIAL MEETINGS.** Unless otherwise restricted by the Certificate of Incorporation, and subject to the notice requirements contained herein, special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Chairman of the Board, the President or any two of the Directors.

(d) **TELEPHONE MEETINGS.** Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(e) **NOTICE OF MEETINGS.** Written notice of the time and place of all special meetings of the Board of Directors shall be given at least one (1) day before the date of the meeting. Such notice need not state the purpose or purposes of such meeting, except as may otherwise be required by law or provided for in the Certificate of Incorporation or these Bylaws. Notice of any meeting may be waived in writing at any time before or after the meeting and will be deemed waived by any Director by attendance thereat, except when the Director attends the meeting solely for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

(f) **WAIVER OF NOTICE.** The transaction of all business at any meeting of the Board of Directors, or any committee thereof, however called or noticed, or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present and if, either before or after meeting, each of the Directors not present shall sign a written waiver of notice, or a consent to holding such meeting, or an approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

#### **Section 4.6. QUORUM AND VOTING.**

(a) Unless the Certificate of Incorporation requires a greater number and except with respect to indemnification questions arising under Article XI hereof, for which a quorum shall be one-third of the exact number of Directors fixed from time to time in accordance with Section 4.1 hereof, but not less than one (1), a quorum of the Board of Directors shall consist of a majority of the exact number of directors fixed from time to time in accordance with Section 4.1 of these Bylaws, but not less than one (1); provided, however, at any meeting whether a quorum be present or otherwise, a majority of the Directors present may adjourn from time to time until

the time fixed for the next regular meeting of the Board of Directors, without notice other than by announcement at the meeting.

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by a vote of the majority of the Directors present, unless a different vote is required by law, the Certificate of Incorporation or these Bylaws.

**Section 4.7. ACTION WITHOUT MEETING.** Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the minutes of proceedings of the Board of Directors or committee.

**Section 4.8. FEES AND COMPENSATION.** Directors shall be entitled to such compensation for their services as may be approved by the Board of Directors, including, if so approved, by resolution of the Board of Directors, a fixed sum and expenses of attendance, if any, for attendance at each regular or special meeting of the Board of Directors and at any meeting of a committee of the Board of Directors. Nothing herein contained shall be construed to preclude any Director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise and receiving compensation therefor.

**Section 4.9. COMMITTEES.**

(a) **COMMITTEES.** The Board of Directors may, by resolution passed by a majority of the whole Board of Directors, from time to time appoint one or more committees as may be permitted by law. Such other committees appointed by the Board of Directors shall consist of one (1) or more members of the Board of Directors and shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committees, but in no event shall such committee have the power or authority to amend the Certificate of Incorporation, to adopt an agreement of merger or consolidation, to recommend to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, to recommend to the stockholders of the corporation a dissolution of the corporation or a revocation of a dissolution, or to amend these Bylaws.

(b) **TERM.** Each member of a committee of the Board of Directors shall serve a term on the committee coexistent with such member's term on the Board of Directors. The Board of Directors, subject to the provisions of paragraphs (a) and (b) of this Section 4.9 may at any time increase or decrease the number of members of a committee or terminate the existence of a committee. The Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a

quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(c) **MEETINGS.** Unless the Board of Directors shall otherwise provide, regular meetings of any committee appointed pursuant to this Section 4.9 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter. Special meetings of any such committee may be held at any place which has been determined from time to time by such committee, and may be called by any Director who is a member of such committee, upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time before or after the meeting and will be waived by any Director by attendance thereat, except when the Director attends such special meeting solely for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present shall be the act of such committee.

**Section 4.10. ORGANIZATION.** The Chairman of the Board shall preside at every meeting of the Board of Directors, if present. In the case of any meeting, if there is no Chairman of the Board or if the Chairman is not present, the Vice Chairman (if there be one) shall preside, or if there be no Vice Chairman or if the Vice Chairman is not present, a chairman chosen by a majority of the directors present shall act as chairman of such meeting. The Secretary of the corporation or, in the absence of the Secretary, any person appointed by the Chairman shall act as secretary of the meeting.

## **ARTICLE V - OFFICERS**

**Section 5.1. OFFICERS DESIGNATED.** The officers of the corporation shall include, if and when designated by the Board of Directors, a Chairman of the Board of Directors, a President, one or more executive and non-executive Vice Presidents (any one or more of which executive Vice Presidents may be designated as Executive Vice President or Senior Vice President or a similar title), a Secretary and a Treasurer. The Board of Directors may, at its discretion, create additional officers and assign such duties to those offices as it may deem appropriate from time to time, which offices may include a Vice Chairman of the Board of Directors, a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer one or more Assistant Secretaries and Assistant Treasurers, and one or more other officers which may be created at the discretion of the Board of Directors. Any one person may hold any number of offices of the corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the corporation shall be fixed by or in the manner designated by the Board of Directors.

**Section 5.2. TENURE AND DUTIES OF OFFICERS.**

(a) **GENERAL.** All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors. Except for the Chairman of the Board and the Vice Chairman of the Board, no officer need be a director.

(b) **CHAIRMAN OF THE BOARD.** The Chairman of the Board of Directors, when present, shall preside at all meetings of the Board of Directors and, unless the Chairman has designated the next senior officer to so preside, at all meetings of the stockholders. The Chairman of the Board of Directors shall perform other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(c) **VICE CHAIRMAN OF THE BOARD.** The Board of Directors may but is not required to assign areas of responsibility to a Vice Chairman of the Board, and, in such event, and subject to the overall direction of the Chairman of the Board and the Board of Directors, the Vice Chairman of the Board shall be responsible for supervising the management of the affairs of the corporation and its subsidiaries within the area or areas assigned and shall monitor and review on behalf of the Board of Directors all functions within such corresponding area or areas of the corporation and each such subsidiary of the corporation. The Vice Chairman of the Board shall have such other powers and duties as designated in accordance with these Bylaws and as from time to time may be assigned to the Vice Chairman of the Board by the Board of Directors or the Chairman of the Board.

(d) **CHIEF EXECUTIVE AND CHIEF OPERATING OFFICERS.** Subject to the control of the Board of Directors, the chief executive officer shall have general executive charge, management and control, of the properties, business and operations of the corporation with all such powers as may be reasonably incident to such responsibilities; and subject to the control of the chief executive officer, the chief operating officer shall have general operating charge, management and control, of the properties, business and operations of the corporation with all such powers as may be reasonably incident to such responsibilities. The chief executive officer and, if and to the extent designated by the chief executive officer or the Board, the chief operating officer, may agree upon and execute all leases, contracts, evidences of indebtedness and other obligations in the name of the corporation and may sign all certificates for shares of capital stock of the corporation, and each shall have such other powers and duties as are designated in accordance with these Bylaws and as from time to time may be assigned to each by the Board of Directors.

(e) **PRESIDENT.** Unless the Board of Directors otherwise determines and subject to the provisions of paragraph (d) above, the President shall be the chief executive officer and chief operating officer of the corporation. Unless the Board of Directors otherwise determines, he shall, in the absence of the Chairman of the Board, or Vice Chairman of the Board, or if there be no Chairman of the Board or Vice Chairman of the Board, preside at all meetings of the stockholders and (should he be a director) of the Board of Directors. The President shall have such other powers and duties as designated in accordance with these Bylaws and as from time to time may be assigned to him by the Board of Directors.

(f) VICE PRESIDENTS. Vice Presidents, by virtue of their appointment as such, shall not necessarily be deemed to be executive officers of the corporation, such status as an executive officer only being conferred if and to the extent such Vice President is placed in charge of a principal business unit, division or function (E.G., sales, administration or finance) or performs a policy-making function for the corporation (within the meaning of Section 16 of the 1934 Act and the rules and regulations promulgated thereunder). Each executive Vice President shall at all times possess, and, upon the authority of the President or the chief executive officer, any non-executive Vice President shall from time to time possess, power to sign all certificates, contracts and other instruments of the corporation, except as otherwise limited pursuant to Article VI hereof or by the Chairman of the Board, the President, chief executive officer or the Vice Chairman of the Board. Vice Presidents shall perform other duties commonly incident to their office and shall also perform such other duties and have such other powers as the Board of Directors or the President shall designate from time to time.

(g) SECRETARY. The Secretary shall keep the minutes of all meetings of the Board of Directors, committees of the Board of Directors and the stockholders, in books provided for that purpose; shall attend to the giving and serving of all notices; may in the name of the corporation affix the seal of the corporation to all contracts and attest the affixation of the seal of the corporation thereto; may sign with the other appointed officers all certificates for shares of capital stock of the corporation; and shall have charge of the certificate books, transfer books and stock ledgers, and such other books and papers as the Board of Directors may direct, all of which shall at all reasonable times be open to inspection of any director upon application at the office of the corporation during business hours. The Secretary shall perform all other duties given in these Bylaws and other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The President may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors or the President, shall designate from time to time.

(h) ASSISTANT SECRETARIES. Each Assistant Secretary shall have the usual powers and duties pertaining to such offices, together with such other powers and duties as designated in these Bylaws and as from time to time may be assigned to an Assistant Secretary by the Board of Directors, the Chairman of the Board, the President, the Vice Chairman of the Board, or the Secretary. The Assistant Secretaries shall exercise the powers of the Secretary during that officer's absence or inability refusal to act.

(i) TREASURER. The Treasurer shall keep or cause to be kept the books of account of the corporation in a thorough and proper manner and shall render statements of the financial affairs of the corporation in such form and as often as required by the Board of Directors, the Chairman of the Board, the Vice President of the Board or the President. The Treasurer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the corporation. The Treasurer shall perform other duties commonly incident to such office and shall also perform such other duties and have such other powers as the Board of Directors, the Chairman of the Board, the Vice Chairman of the Board or the President shall designate from time to time. The Chief Financial Officer of the corporation (if one is appointed) may, but need not, serve as the Treasurer.

(j) **ASSISTANT TREASURERS.** Each Assistant Treasurer shall have the usual powers and duties pertaining to such office, together with such other powers and duties as designated in these Bylaws and as from time to time may be assigned to each Assistant Treasurer by the Board of Directors, the Chairman of the Board, the President, the Vice Chairman of the Board, or the Treasurer. The Assistant Treasurers shall exercise the powers of the Treasurer during that officer's absence or inability refusal to act.

**Section 5.3. DELEGATION OF AUTHORITY.** For any reason that the Board of Directors may deem sufficient, the Board of Directors may, except where otherwise provided by statute, delegate the powers or duties of any officer to any other person, and may authorize any officer to delegate specified duties of such office to any other person. Any such delegation or authorization by the Board shall be effected from time to time by resolution of the Board of Directors.

**Section 5.4. RESIGNATIONS.** Any officer may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary. Any such resignation shall be effective when received by the person or persons to whom such notice is given, unless a later time is specified therein, in which event the resignation shall become effective at such later time. Unless otherwise specified in such notice, the acceptance of any such resignation shall not be necessary to make it effective. Any resignation shall be without prejudice to the rights, if any, of the corporation under any contract with the resigning officer.

**Section 5.5. REMOVAL.** Any officer may be removed from office at any time, either with or without cause, by the vote or written consent of a majority of the Directors in office at the time, or by any committee or superior officers upon whom such power of removal may have been conferred by the Board of Directors.

## **ARTICLE VI - EXECUTION OF CORPORATE INSTRUMENTS AND VOTING OF SECURITIES OWNED BY THE CORPORATION**

**Section 6.1. EXECUTION OF CORPORATE INSTRUMENTS.** The Board of Directors may, in its discretion, determine the method and designate the signatory officer or officers, or other person or persons, to execute on behalf of the corporation any corporate instrument or document, or to sign on behalf of the corporation the corporate name without limitation, or to enter into contracts on behalf of the corporation, except where otherwise provided by law or these Bylaws, and such execution or signature shall be binding upon the corporation.

Unless otherwise specifically determined by the Board of Directors or otherwise required by law, promissory notes, deeds of trust, mortgages and other evidences of indebtedness of the corporation, and other corporate instruments or documents requiring the corporate seal, and certificates of shares of stock owned by the corporation, shall be executed, signed or endorsed by the Chairman of the Board of Directors, the President, Chief Executive Officer or any executive Vice President, and upon the authority conferred by the President, Chief Executive Officer, or any non-executive Vice President, and by the Secretary or Chief Financial Officer, if any be designated, or Treasurer or any Assistant Secretary or Assistant Treasurer. All other instruments



and documents requiring the corporate signature, but not requiring the corporate seal, may be executed as aforesaid or in such other manner as may be directed by the Board of Directors.

All checks and drafts drawn on banks or other depositories on funds to the credit of the corporation or in special accounts of the corporation shall be signed by such person or persons as the Board of Directors shall authorize so too.

Unless authorized or ratified by the Board of Directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

**Section 6.2. VOTING OF SECURITIES OWNED BY THE CORPORATION.** All stock and other securities of other corporations owned or held by the corporation for itself, or for other parties in any capacity, shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors, or, in the absence of such authorization, by the Chairman or Vice Chairman of the Board of Directors, Chief Executive Officer, the President, or any Vice President.

## ARTICLE VII - SHARES OF STOCK

**Section 7.1. FORM AND EXECUTION OF CERTIFICATES.** The shares of capital stock of the corporation may be certificated or uncertificated, as provided under the Delaware General Corporation Law. If certificated, certificates for the shares of stock of the corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the corporation represented by certificates shall be entitled to have a certificate signed by or in the name of the corporation by the Chairman or Vice Chairman of the Board of Directors, the Chief Executive Officer, the President or any Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, certifying the number of shares and the class or series owned by him in the corporation. Where such certificate is countersigned by a transfer agent other than the corporation or its employee or by a registrar other than the corporation or its employee, any other signature on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue.

**Section 7.2. LOST CERTIFICATES.** A new certificate or certificates may be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. The corporation may require, as a condition precedent to the issuance of a new certificate or certificates, the owner of such lost, stolen, or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require or to give the corporation a surety bond in such form and

amount as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

### **Section 7.3. TRANSFERS.**

(a) Transfers of record of shares of uncertificated stock of the corporation shall be made upon proper instructions from the holder of uncertificated shares. Transfers of record of shares of stock in the corporation represented by certificates shall be made only on its books by the holders thereof, in person or by attorney duly authorized and upon the surrender of a properly endorsed certificate or certificates for a like number of shares. Upon surrender to the corporation or a transfer agent of the corporation or a transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. The Board of Directors shall have the power and authority to make all such other rules and regulations as they may deem expedient concerning the issue, transfer and registration or the replacement of certificates for shares of capital stock of the corporation.

(b) The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the Delaware General Corporation Law.

### **Section 7.4. FIXING RECORD DATES.**

(a) In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than sixty (60) days prior to such action. If no record date is fixed by the Board of Directors, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

**Section 7.5. REGISTERED STOCKHOLDERS.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

## **ARTICLE VIII - OTHER SECURITIES OF THE CORPORATION**

**Section 8.1. EXECUTION OF OTHER SECURITIES.** All bonds, debentures and other corporate securities of the corporation, other than stock certificates (covered in Section 7.1), may be signed by the Chairman or Vice Chairman of the Board of Directors, the Chief Executive Officer, the President or any Vice President, or such other person as may be authorized by the Board of Directors, and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signatures of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer of the corporation or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon or on any such interest coupon, shall have ceased to be such officer before any bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the corporation.

## **ARTICLE IX - DIVIDENDS**

**Section 9.1. DECLARATION OF DIVIDENDS.** Dividends upon the capital stock of the corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors pursuant to law at any regular or special meeting. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

**Section 9.2. DIVIDEND RESERVE.** Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the Board of Directors shall think

conducive to the interests of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

## **ARTICLE X - FISCAL YEAR**

The fiscal year of the corporation shall be the calendar year, unless otherwise fixed by resolution of the Board of Directors.

## **ARTICLE XI - INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES AND OTHER AGENTS**

**Section 11.1. DIRECTORS AND EXECUTIVE OFFICERS.** The corporation shall indemnify its Directors and executive officers to the fullest extent not prohibited by the Delaware General Corporation Law; PROVIDED, HOWEVER, that the corporation may limit the extent of such indemnification by individual contracts with its Directors and executive officers; and, PROVIDED, FURTHER, that the corporation shall not be required to indemnify any Director or executive officer in connection with any proceeding (or part thereof) initiated by such person or any proceeding by such person against the corporation or its Directors, officers, employees or other agents unless (i) such indemnification is expressly required to be made by law, (ii) the proceeding was authorized by the Board of Directors of the corporation, or (iii) such indemnification is provided by the corporation, in its sole discretion, pursuant to the powers vested in the corporation under the Delaware General Corporation Law.

**Section 11.2. OTHER OFFICERS, EMPLOYEES AND OTHER AGENTS.** The corporation shall have power to indemnify its other officers, employees and other agents as set forth in the Delaware General Corporation Law.

### **Section 11.3. GOOD FAITH.**

(a) For purposes of any determination under this Article XI, a Director or executive officer shall be deemed to have acted in good faith and in a manner such officer reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, to have had no reasonable cause to believe that such officer's conduct was unlawful, if such officer's action is based on information, opinions, reports and statements, including financial statements and other financial data, in each case prepared or presented by:

(i) one or more officers or employees of the corporation whom the Director or executive officer believed to be reliable and competent in the matters presented;

(ii) counsel, independent accountants or other persons as to matters which the Director or executive officer believed to be within such person's professional competence; and

(iii) with respect to a Director, a committee of the Board upon which such Director does not serve, as to matters within such committee's designated authority, which

committee the Director believes to merit confidence; so long as, in each case, the Director or executive officer acts without knowledge that would cause such reliance to be unwarranted.

(b) The termination of any proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal proceeding, that such person had reasonable cause to believe that his conduct was unlawful.

(c) The provisions of this Section 11.3 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth by the Delaware General Corporation Law.

**Section 11.4. EXPENSES.** The corporation shall advance, prior to the final disposition of any proceeding, promptly following request therefor, all expenses incurred by any Director or executive officer in connection with such proceeding upon receipt of an undertaking by or on behalf of such person to repay said amounts if it should be determined ultimately that such person is not entitled to be indemnified under this Article XI or otherwise.

Notwithstanding the foregoing, unless otherwise determined pursuant to Section 11.5 of this Article XI, no advance shall be made by the corporation if a determination is reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to the proceeding, or (ii) if such quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, that the facts known to the decision-making party at the time such determination is made demonstrate clearly and convincingly that such person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the corporation.

**Section 11.5. ENFORCEMENT.** Without the necessity of entering into an express contract, all rights to indemnification and advances to Directors and executive officers under this Article XI shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the corporation and the Director or executive officer. Any right to indemnification or advances granted by this Article XI to a Director or executive officer shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. The claimant in such enforcement action, if successful in whole or in part, shall also be entitled to be paid the expense of prosecuting his claim. The corporation shall be entitled to raise as a defense to any such action that the claimant has not met the standards of conduct that make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed. Neither the failure of the corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because such person has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the corporation (including its Board of

Directors, independent legal counsel or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

**Section 11.6. NON-EXCLUSIVITY OF RIGHTS.** The rights conferred on any person by this Article XI shall not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding office. The corporation is specifically authorized to enter into individual contracts with any or all of its Directors, officers, employees or agents respecting indemnification and advances, to the fullest extent not prohibited by the Delaware General Corporation Law.

**Section 11.7. SURVIVAL OF RIGHTS.** The rights conferred on any person by this Article XI shall continue as to a person who has ceased to be a Director, officer, employee or other agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

**Section 11.8. INSURANCE.** To the fullest extent permitted by the Delaware General Corporation Law, the corporation, upon approval by the Board of Directors, may purchase insurance on behalf of any person required or permitted to be indemnified pursuant to this Article XI.

**Section 11.9. AMENDMENTS.** Any repeal or modification of this Article XI shall only be prospective and shall not affect the rights under this Article XI in effect at the time of the alleged occurrence of any action or omission to act that is the cause of any proceeding against any agent of the corporation.

**Section 11.10. SAVINGS CLAUSE.** If this Article XI or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the corporation shall nevertheless indemnify each Director and executive officer to the full extent not prohibited by any applicable portion of this Article XI that shall not have been invalidated, or by any other applicable law.

**Section 11.11. CERTAIN DEFINITIONS.** For the purposes of this Article XI, the following definitions shall apply:

(a) The term “proceeding” shall be broadly construed and shall include, without limitation, the investigation, preparation, prosecution, defense, settlement, arbitration and appeal of, and the giving of testimony in, any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative.

(b) The term “expenses” shall be broadly construed and shall include, without limitation, court costs, attorneys’ fees, witness fees, fines, amounts paid in settlement or judgment and any other costs and expenses of any nature or kind incurred in connection with any proceeding.

(c) The term the “corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article XI with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(d) References to a “director,” “officer,” “employee,” or “agent” of the corporation shall include without limitation, situations where such person is serving at the request of the corporation as a director, officer, employee, trustee or agent of another corporation, partnership, joint venture, trust or other enterprise.

(e) References to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the corporation” shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the corporation” as referred to in this Article XI.

## ARTICLE XII - NOTICES

**Section 12.1. NOTICE TO STOCKHOLDERS.** Unless the Certificate of Incorporation requires otherwise, whenever, under any provisions of these Bylaws, notice is required to be given to any stockholder, it shall be given in writing, timely and duly deposited in the United States mail, postage prepaid, and addressed to such stockholder’s last known post office address as shown by the stock record of the corporation or its transfer agent.

**Section 12.2. NOTICE TO DIRECTORS.** Any notice required to be given to any Director may be given by the method stated in Section 12.1, or by facsimile, telex or telegram, except that such notice other than one which is delivered personally shall be sent to such address as such Director shall have filed in writing with the Secretary, or, in the absence of such filing, to the last known post office address of such Director. It shall not be necessary that the same method of giving notice be employed in respect of all Directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others.

**Section 12.3. ADDRESS UNKNOWN.** If no address of a stockholder or Director be known, notice may be sent to the principal executive officer of the corporation.

**Section 12.4. AFFIDAVIT OF MAILING.** An affidavit of mailing, executed by a duly authorized and competent employee of the corporation or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the stockholder or stockholders, or Director or Directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall be conclusive evidence of the statements therein contained.

**Section 12.5. TIME NOTICES DEEMED GIVEN.** All notices given by mail, as above provided, shall be deemed to have been given as at the time of mailing, and all notices given by facsimile, telex or telegram shall be deemed to have been given as of the sending time recorded at the time of transmission.

**Section 12.6. FAILURE TO RECEIVE NOTICE.** The period or limitation of time within which any stockholder may exercise any option or right, or enjoy any privilege or benefit, or be required to act, or within which any Director may exercise any power or right, or enjoy any privilege, pursuant to any notice sent such person in the manner above provided, shall not be affected or extended in any manner by the failure of such stockholder or such Director to receive such notice.

**Section 12.7. NOTICE TO PERSON WITH WHOM COMMUNICATION IS UNLAWFUL.** Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

**Section 12.8. NOTICE TO PERSON WITH UNDELIVERABLE ADDRESS.** Whenever notice is required to be given, under any provision of law or the Certificate of Incorporation or Bylaws of the corporation, to any stockholder to whom (i) notice of two consecutive annual meetings, and all notices of meetings to such person during the period between such two consecutive annual meetings, or (ii) all, and at least two, payments (if sent by first class mail) of dividends or interest on securities during a twelve-month period, have been mailed addressed to such person at such person's address as shown on the records of the corporation and have been returned undeliverable, the giving of such notice to such person shall not be required. Any action or meeting which shall be taken or held without notice to such person shall have the same force and effect as if such notice had been duly given. If any such person shall deliver to the corporation a written notice setting forth such person's then current address, the requirement that notice be given to such person shall be reinstated. In the event that the action taken by the corporation is such as to require the filing of a certificate under any provision of the Delaware General Corporation Law, the certificate need not state that notice was not given to persons to whom notice was not required to be given pursuant to this paragraph.



## ARTICLE XIII - AMENDMENTS

**Section 13.1. AMENDMENTS.** Except as otherwise set forth in Section 11.9 of these Bylaws, these Bylaws may be amended or repealed and new Bylaws adopted by the Board of Directors or by the stockholders entitled to vote.

**Section 13.2. APPLICATION OF BYLAWS.** In the event that any provisions of these Bylaws is or may be in conflict with any law of the United States, of the state of incorporation of the corporation or of any other governmental body or power having jurisdiction over this corporation, or over the subject matter to which such provision of these Bylaws applies, or may apply, such provision of these Bylaws shall be inoperative to the extent only that the operation thereof unavoidably conflicts with such law, and shall in all other respects be in full force and effect.

## ARTICLE XIV - LOANS TO OFFICERS

The corporation may lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the corporation or of its subsidiaries, including any officer or employee who is a Director of the corporation or its subsidiaries, whenever, in the judgment of the Board of Directors, such loan, guarantee or assistance may reasonably be expected to benefit the corporation. The loan, guarantee or other assistance may be with or without interest and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this Bylaw shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under statute.

## ARTICLE XV - ANNUAL REPORT

At such time as the corporation becomes subject to the reporting requirements of Rules 12(b) and 15(d) of the Securities Exchange Act of 1934, the Board of Directors shall cause an annual report to be sent to each stockholder of the corporation not later than one hundred twenty (120) days after the close of the corporation's fiscal year. Such report shall include a balance sheet as of the end of such fiscal year and an income statement and statement of changes in financial position for such fiscal year, accompanied by any report thereon of independent accounts or, if there is no such report, the certificate of an authorized officer of the corporation that such statements were prepared without audit from the books and records of the corporation. Such report shall be sent to stockholders at least fifteen (15) days prior to the next annual meeting of stockholders after the end of the fiscal year to which it relates. If and so long as there are fewer than 100 holders of record of the corporation's shares, the requirement of sending of an annual report to the stockholders of the corporation is hereby expressly waived.



Subsidiaries

Subsidiaries  
Perficient, Inc.  
Perficient Canada Corp.  
BoldTech International LLC  
Perficient China, Ltd.  
Perficient India Private Limited  
Patriot MS Co.

Jurisdiction  
Delaware  
Province of Ontario, Canada  
Colorado  
People’s Republic of China  
India  
Delaware

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Perficient, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-89076, No. 333-42624, No. 333-100490, No. 333-116549, No. 333-117216, No. 333-123177, No. 333-129054, No. 333-138602, No. 333-142267, No. 333-145899, No. 333-147687, No. 333-148978, and No. 333-152274) on Form S-3 and (No. 333-42626, No. 333-44854, No. 333-75666, No. 333-118839, No. 333-130624, No. 333-147730, No. 333-157799, No. 333-160465, and No. 333-183422) on Form S-8 of Perficient, Inc. and subsidiaries (the Company) of our report dated March 6, 2013, with respect to the consolidated balance sheets of the Company as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the effectiveness of internal control over financial reporting as of December 31, 2012, which report appears in the December 31, 2012 annual report on Form 10-K of the Company.

Our report dated March 6, 2013, on the effectiveness of internal control over financial reporting as of December 31, 2012, contains an explanatory paragraph that states the Company acquired PointBridge Solutions, LLC (PointBridge), Nascent Systems, LP (Nascent), and Northridge Systems, Inc. (Northridge) in February, June, and July 2012, respectively, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, PointBridge's, Nascent's, and Northridge's internal control over financial reporting associated with 19% and 10% 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, 2012. Our audit of internal control over financial reporting of the Company as of December 31, 2012 also excluded an evaluation of the internal control over financial reporting of PointBridge, Nascent, and Northridge.

/s/ KPMG LLP

St. Louis, Missouri  
March 6, 2013

## CERTIFICATIONS

I, Jeffrey S. Davis, certify that:

1. I have reviewed this quarterly report on Form 10-K of Perficient, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2013

By: /s/ Jeffrey S. Davis  
Jeffrey S. Davis  
Chief Executive Officer and President

## CERTIFICATIONS

I, Paul E. Martin, certify that:

1. I have reviewed this quarterly report on Form 10-K of Perficient, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 7, 2013

By: /s/ Paul E. Martin  
Paul E. Martin  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER**

Pursuant to 18 U.S.C. Sec. 1350 and in connection with the accompanying report on Form 10-K for the fiscal year ended December 31, 2012 that contains financial statements for such period and that is being filed concurrently with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of Perficient, Inc. (the "Company"), hereby certifies that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 7, 2013

By: /s/ Jeffrey S. Davis  
Jeffrey S. Davis  
Chief Executive Officer and President

Date: March 7, 2013

By: /s/ Paul E. Martin  
Paul E. Martin  
Chief Financial Officer