

PERFICIENT INC  
Form 10-Q  
November 03, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-15169  
PERFICIENT, INC.  
(Exact name of registrant as specified in its charter)

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

555 Maryville University Drive  
Suite 600  
Saint Louis, Missouri 63141  
(Address of principal executive offices)  
(314) 529-3600  
(Registrant's telephone number, including area code)

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 during 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of October 28, 2016, there were 36,055,119 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Quarterly Report on this Form 10-Q ("Form 10-Q") 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 including fluctuations in exchange rates;
  - f. obtaining favorable pricing to reflect services provided;
  - g. adapting to changes in technologies and offerings;
  - h. risk of loss of one or more significant software vendors;
  - i. making appropriate estimates and assumptions in connection with preparing our consolidated financial statements;
  - j. maintaining effective internal controls; and
  - k. managing fluctuations in foreign currency exchange rates;
- (3) legal liabilities, including intellectual property protection and infringement or the disclosure of personally identifiable information;
- (4) risks associated with managing growth organically and through acquisitions; and
- (5) the risks detailed from time to time within 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" in our Annual Report on Form 10-K for the year ended December 31, 2015 and elsewhere in this Form 10-Q, including documents incorporated by reference therein and 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 Form 10-Q 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. and its subsidiaries (collectively, "we", "us", "Perficient", or the "Company") 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 the Company or any persons acting on our behalf may issue.



## Item 1. Financial Statements

Perficient, Inc.

Condensed Consolidated Balance Sheets

	September 30, 2016	December 31, 2015
	(unaudited)	
	(In thousands, except share and per share information)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$9,321	\$8,811
Accounts receivable, net	106,455	120,612
Prepaid expenses	3,978	3,297
Other current assets	2,457	7,032
Total current assets	122,211	139,752
Property and equipment, net	9,537	7,891
Goodwill	269,570	269,383
Intangible assets, net	45,240	53,408
Other non-current assets	3,939	3,930
Total assets	\$450,497	\$474,364
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$13,485	\$18,793
Other current liabilities	22,505	37,783
Total current liabilities	35,990	56,576
Long-term debt	28,000	56,000
Other non-current liabilities	14,520	12,978
Total liabilities	\$78,510	\$125,554
Stockholders' equity:		
Common stock (par value \$0.001 per share; 50,000,000 shares authorized; 45,562,013 shares issued and 34,615,466 shares outstanding as of September 30, 2016; 45,124,948 shares issued and 34,394,412 shares outstanding as of December 31, 2015)	\$45	\$45
Additional paid-in capital	375,473	364,786
Accumulated other comprehensive loss	(2,122 )	(1,875 )
Treasury stock, at cost (10,946,547 shares as of September 30, 2016; 10,730,536 shares as of December 31, 2015)	(107,226)	(103,197)
Retained earnings	105,817	89,051
Total stockholders' equity	371,987	348,810
Total liabilities and stockholders' equity	\$450,497	\$474,364

See accompanying notes to interim unaudited condensed consolidated financial statements.

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Perficient, Inc.

Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(In thousands, except per share information)			
Revenues				
Services	\$ 102,958	\$ 105,351	\$ 320,587	\$ 301,166
Software and hardware	11,184	11,520	31,907	27,490
Reimbursable expenses	5,011	4,038	14,897	11,315
Total revenues	119,153	120,909	367,391	339,971
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Cost of services	67,536	66,274	210,190	193,734
Software and hardware costs	10,194	10,195	27,348	23,559
Reimbursable expenses	5,011	4,038	14,897	11,315
Total cost of revenues	82,741	80,507	252,435	228,608
Gross margin	36,412	40,402	114,956	111,363
Selling, general and administrative	24,475	23,715	76,780	72,571
Depreciation	1,212	1,148	3,619	3,322
Amortization	3,266	3,357	9,937	10,569
Acquisition costs	310	488	715	509
Adjustment to fair value of contingent consideration	(865 )	99	(1,817 )	273
Income from operations	8,014	11,595	25,722	24,119
Net interest expense	335	501	1,322	1,602
Net other expense	89	29	94	300
Income before income taxes	7,590	11,065	24,306	22,217
Provision for income taxes	2,045	3,691	7,540	6,780
Net income	\$ 5,545	\$ 7,374	\$ 16,766	\$ 15,437
Basic net income per share	\$ 0.16	\$ 0.22	\$ 0.49	\$ 0.46
Diluted net income per share	\$ 0.16	\$ 0.22	\$ 0.48	\$ 0.45
Shares used in computing basic net income per share	34,128	33,498	34,040	33,292
Shares used in computing diluted net income per share	35,077	34,187	35,012	34,163

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
	(In thousands)		(In thousands)	
Net income	\$5,545	\$7,374	\$16,766	\$15,437
Other comprehensive loss:				
Foreign currency translation adjustment	(67 )	(595 )	(247 )	(747 )
Comprehensive income	\$5,478	\$6,779	\$16,519	\$14,690

See accompanying notes to interim unaudited condensed consolidated financial statements.



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Perficient, Inc.

Unaudited Condensed Consolidated Statement of Stockholders' Equity

Nine Months Ended September 30, 2016

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2015	34,394	\$ 45	\$364,786	\$ (1,875 )	\$(103,197)	\$89,051	\$ 348,810
Proceeds from the sales of stock through the Employee Stock Purchase Plan	8	--	154	--	--	--	154
Stock compensation related to restricted stock vesting and retirement savings plan contributions	422	--	10,395	--	--	--	10,395
Purchases of treasury stock and buyback of shares for taxes	(130 )	--	--	--	(2,530 )	--	(2,530 )
Surrender of stock in conjunction with net working capital settlement	(86 )	--	--	--	(1,499 )	--	(1,499 )
Issuance of stock for acquisitions	8	--	138	--	--	--	138
Net income	--	--	--	--	--	16,766	16,766
Foreign currency translation adjustment	--	--	--	(247 )	--	--	(247 )
Balance at September 30, 2016	34,616	\$ 45	\$375,473	\$ (2,122 )	\$(107,226)	\$105,817	\$ 371,987

See accompanying notes to interim unaudited condensed consolidated financial statements.

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Perficient, Inc.  
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, 2016      2015 (In thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$16,766	\$15,437
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	3,619	3,322
Amortization	9,937	10,569
Deferred income taxes	481	(351 )
Non-cash stock compensation and retirement savings plan contributions	10,395	9,807
Tax benefit from stock option exercises and restricted stock vesting	-	(974 )
Adjustment to fair value of contingent consideration for purchase of business	(1,817 )	273
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	12,877	7,830
Other assets	3,514	2,365
Accounts payable	(5,308 )	(8,267 )
Other liabilities	(10,565 )	(13,759 )
Net cash provided by operating activities	39,899	26,252
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(3,575 )	(2,462 )
Capitalization of internally developed software costs	(1,761 )	(819 )
Purchase of short-term investments	(869 )	-
Purchase of businesses, net of cash acquired	(277 )	(26,605 )
Net cash used in investing activities	(6,482 )	(29,886 )
<b>FINANCING ACTIVITIES</b>		
Proceeds from line of credit	153,000	201,500
Payments on line of credit	(181,000)	(194,500)
Payments for credit facility financing fees	(194 )	(193 )
Payment of contingent consideration for purchase of business	(2,144 )	-
Tax benefit from stock option exercises and restricted stock vesting	-	974
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	154	284
Purchases of treasury stock	-	(2,840 )
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(2,530 )	(3,644 )
Net cash (used in) provided by financing activities	(32,714 )	1,581
Effect of exchange rate on cash and cash equivalents	(193 )	(190 )
Change in cash and cash equivalents	510	(2,243 )
Cash and cash equivalents at beginning of period	8,811	10,935
Cash and cash equivalents at end of period	\$9,321	\$8,692
Supplemental disclosures:		
Cash paid for income taxes	\$2,587	\$4,835
Cash paid for interest	\$1,211	\$1,487

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Non-cash activity:

Stock issued for purchase of business	\$96	\$12,493
Stock surrendered by Zeon in conjunction with net working capital settlement	\$1,499	\$-
Liability incurred for purchase of property, plant and equipment	\$1,671	\$-
Current liability assumed for prepaid asset	\$-	\$761

See accompanying notes to interim unaudited condensed consolidated financial statements.

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PERFICIENT, INC.

NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2016

1. Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements of Perficient, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with U.S. generally accepted accounting principles and are presented in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") applicable to interim financial information. Accordingly, certain footnote disclosures have been condensed or omitted. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the Company's consolidated financial statements and notes thereto filed with the SEC in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three and nine months ended September 30, 2016, respectively, may not be indicative of the results for the full fiscal year ending December 31, 2016.

Certain prior period financial statement amounts have been reclassified to conform to current period presentation.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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

Service revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, service 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, service 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. In conjunction with services provided, the Company occasionally receives referral fees under partner programs. These referral fees are recorded when earned within service 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. Revenues from sales of third-party software-as-a-service arrangements where the Company is not the primary obligor are recorded on a net basis. On many projects the Company is also reimbursed for out-of-pocket expenses including travel and other project-related expenses. These reimbursements are included as a component of revenues. We did not realize any profit on reimbursable expenses.

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 the Financial Accounting Standards Board ("FASB") 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.

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.

### 3. Stock-Based Compensation

Stock-based compensation is accounted for in accordance with ASC Topic 718, Compensation – Stock Compensation. Under this guidance, the Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting, the Company has continued to elect to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur. See Note 13, Recent Accounting Pronouncements, for additional information regarding the adoption of ASU No. 2016-09.

#### Stock Award Plans

The Company's Amended and Restated Perficient, Inc. 2012 Long Term Incentive Plan (as amended, the "Incentive Plan") allows for the granting of various types of stock awards, not to exceed a total of 5.0 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.

Stock-based compensation cost recognized for the three and nine months ended September 30, 2016 was approximately \$3.2 million and \$10.6 million, respectively, which included \$0.6 million and \$1.9 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.2 million and \$3.5 million for the three and nine months ended September 30, 2016, respectively. Stock-based compensation cost recognized for the three and nine months ended September 30, 2015 was approximately \$3.2 million and \$10.1 million, respectively, which included \$0.6 and \$1.7 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.1 million and \$3.2 million for the three and nine months ended September 30, 2015, respectively. As of September 30, 2016, there was \$15.9 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.

Restricted stock activity for the nine months ended September 30, 2016 was as follows (shares in thousands):

Shares	Weighted-Average
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		Grant Date Fair Value
Restricted stock awards outstanding at December 31, 2015	1,370	\$ 17.82
Awards granted	358	19.95
Awards vested	(329 )	17.00
Awards forfeited	(123 )	17.54
Restricted stock awards outstanding at September 30, 2016	1,276	\$ 18.62

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## 4. Net Income per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$5,545	\$7,374	\$16,766	\$15,437
Basic:				
Weighted-average shares of common stock outstanding	34,128	33,498	34,040	33,292
Shares used in computing basic net income per share	34,128	33,498	34,040	33,292
Effect of dilutive securities:				
Stock options	-	-	-	1
Restricted stock subject to vesting	479	368	468	409
Contingently issuable shares (1)	-	-	2	-
Shares issuable for acquisition consideration (2)	470	321	502	461
Shares used in computing diluted net income per share	35,077	34,187	35,012	34,163
Basic net income per share	\$0.16	\$0.22	\$0.49	\$0.46
Diluted net income per share	\$0.16	\$0.22	\$0.48	\$0.45
Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share	-	3	-	37

(1) For the nine months ended September 30, 2016, this represents the shares issued to Zeon Solutions Incorporated and certain related entities (collectively, "Zeon") pursuant to the Asset Purchase Agreement.

For the three and nine months ended September 30, 2016, this represents the shares held in escrow pursuant to: (i) the Asset Purchase Agreement with BioPharm Systems, Inc. ("BioPharm"); (ii) the Asset Purchase Agreement with Zeon; (iii) the Stock Purchase Agreement for Market Street Solutions, Inc. ("Market Street"); and (iv) the Asset Purchase Agreement with The Pup Group, Inc. ("Enlighten") as part of the consideration. For the three and nine (2) months ended September 30, 2015, this represents the shares held in escrow pursuant to: (i) the Agreement and Plan of Merger with ForwardThink Group Inc.; (ii) the Asset Purchase Agreement with BioPharm; (iii) the Asset Purchase Agreement with Trifecta Technologies, Inc. and Trifecta Technologies Canada, Limited; (iv) the Asset Purchase Agreement with Zeon; and (v) the Stock Purchase Agreement for Market Street as part of the consideration.

## 5. Commitments and Contingencies

From time to time the Company is involved in legal proceedings, claims and litigation related to employee claims, contractual disputes and taxes in the ordinary course of its business. Although the Company cannot predict the outcome of such matters, currently the Company has no reason to believe the disposition of any current matter could reasonably be expected to have a material adverse impact on the Company's financial position, results of operations or the ability to carry on any of its business activities.

In June 2016, the Company entered into an agreement to purchase software licenses for internal use payable over a two-year period. As a result, the Company has recorded \$0.9 million in "Other current liabilities" and \$0.8 million in "Other non-current liabilities" in the Condensed Consolidated Balance Sheet as of September 30, 2016 (unaudited).



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.

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 September 30, 2016 were as follows and excludes the impact of the acquisition referenced in Note 12, Subsequent Events (in thousands):

	Operating Leases
2016 remaining	\$ 1,680
2017	5,607
2018	4,260
2019	3,735
2020	3,360
Thereafter	2,645
Total minimum lease payments	\$ 21,287

Rent expense for each of the three and nine months ended September 30, 2016 was \$1.8 million and \$5.5 million, respectively. Rent for each of the three and nine months ended September 30, 2015 was \$1.7 million and \$4.9 million, respectively.

## 6. Balance Sheet Components

	September 30, 2016	December 31, 2015
(in thousands)		
Accounts receivable:		
Accounts receivable	\$69,406	\$84,273
Unbilled revenues	37,883	37,088
Allowance for doubtful accounts	(834 )	(749 )
Total	\$106,455	\$120,612
Property and equipment:		
Computer hardware (useful life of 3 years)	\$12,058	\$11,467
Furniture and fixtures (useful life of 5 years)	3,220	2,957
Leasehold improvements (useful life of 5 years)	2,712	2,517
Software (useful life of 1 to 7 years)	9,023	7,883
Less: Accumulated depreciation	(17,476)	(16,933)
Total	\$9,537	\$7,891
Other current liabilities:		
Accrued variable compensation	\$8,056	\$15,050
Deferred revenue	3,612	5,414
Payroll related costs	2,746	2,906
Accrued subcontractor fees	1,012	771
Accrued medical claims expense	1,871	1,816
Professional fees	146	726
Estimated fair value of contingent consideration liability (1)	1,333	5,904
Net working capital settlements	-	1,008
Other current liabilities	3,729	4,188
Total	\$22,505	\$37,783
Other non-current liabilities:		
Deferred compensation liability	\$3,449	\$3,376
Deferred income taxes	8,943	8,463
Other non-current liabilities	2,128	1,139
Total	\$14,520	\$12,978

As of September 30, 2016, represents the fair value estimate of additional earnings-based contingent consideration that may be realized by Enlighten and Market Street's selling shareholders 12 months after the applicable (1) acquisition. As of December 31, 2015, represents the fair value estimate of additional earnings-based contingent consideration that may be realized by Zeon, Enlighten and Market Street's selling shareholders 12 months after the applicable acquisition.

## 7. Business Combinations

### 2015 Acquisitions

#### Acquisition of Zeon

On January 2, 2015, the Company acquired the assets of Zeon pursuant to the terms of an Asset Purchase Agreement. The acquisition of Zeon expanded the Company's expertise in the support of eCommerce and digital agency solutions.

The Company's total allocable purchase price consideration was \$35.0 million. The purchase price was comprised of \$22.9 million in cash paid and \$11.4 million in Company common stock issued at closing reduced by \$1.5 million as a result of a net working capital adjustment settled in Company common stock surrendered by Zeon in April 2016. The purchase price also included \$2.2 million representing the initial fair value estimate of additional earnings-based contingent consideration, which was realized by Zeon twelve months after the closing date of the acquisition. The Company paid \$2.8 million in contingent consideration in 2016, which represents the maximum cash and stock payout pursuant to the Asset Purchase Agreement. The Company incurred approximately \$0.9 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$7.5
Acquired intangible assets	12.7
Liabilities assumed	(3.6)
Goodwill	18.4
Total purchase price	\$35.0

The amount of goodwill expected to be deductible for tax purposes is \$19.1 million. The Company estimated that the intangible assets acquired have useful lives of nine months to eight years.

#### Acquisition of Market Street

On September 17, 2015, the Company acquired Market Street pursuant to the terms of a Stock Purchase Agreement. The acquisition of Market Street expanded the Company's IT consulting services specializing in the development, implementation, integration and support of big data, analytics, and financial performance management solutions.

The Company's total allocable purchase price consideration was \$5.4 million. The purchase price was comprised of \$3.0 million in cash paid (net of cash acquired) and \$1.1 million in Company common stock issued at closing increased by \$0.3 million as a result of a net working capital settlement paid to the sellers in February 2016. The purchase price also included \$1.0 million representing the initial fair value estimate of additional revenue and earnings-based contingent consideration, which was realized by the sellers twelve months after the closing date of the acquisition. The Company incurred approximately \$0.5 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$1.3
Acquired intangible assets	3.1
Liabilities assumed	(2.9)
Goodwill	3.9

Total purchase price        \$5.4

The goodwill is non-deductible for tax purposes. The Company estimated that the intangible assets acquired have useful lives of nine months to eight years.

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Acquisition of Enlighten

On December 4, 2015, the Company acquired the assets of Enlighten pursuant to the terms of an Asset Purchase Agreement. Enlighten was a digital marketing agency specializing in the development, implementation, integration and support of digital experience solutions. The acquisition of Enlighten enhanced and expanded the Company's digital strategy, creative services and marketing expertise.

The Company has initially estimated the total allocable purchase price consideration to be \$16.2 million. The purchase price was comprised of \$11.3 million in cash paid and \$2.9 million of Company common stock issued at closing reduced by \$0.2 million as a result of an estimated net working capital settlement due from the seller. The purchase price also included \$2.2 million representing the initial fair value estimate of additional revenue and earnings-based contingent consideration, which may be realized by Enlighten twelve months after the closing date of the acquisition. As of September 30, 2016, the Company's best estimate of the fair value of the contingent consideration was \$0.1 million. As a result, the Company recorded a pre-tax adjustment in "Adjustment to fair value of contingent consideration" on the Unaudited Condensed Consolidated Statements of Operations of \$0.9 million and \$2.1 million during the three and nine months ended September 30, 2016, respectively. The Company incurred approximately \$0.5 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	\$4.4
Acquired intangible assets	4.3
Liabilities assumed	(2.6 )
Goodwill	10.1
Total purchase price	\$16.2

The amount of goodwill expected to be deductible for tax purposes is \$9.0 million. The Company estimated that the intangible assets acquired have useful lives of twelve months to five years.

The amounts above represent the final fair value estimates of purchase accounting as of the acquisition date, except for a net working capital settlement that is subject to final adjustment as the Company obtains additional information during the measurement period.

The following table presents details of the intangible assets acquired during the year ended December 31, 2015 (dollars in millions):

Weighted Average Useful Life	Useful Life	Aggregate Acquisitions
Customer relationships	7 years 5 - 8 years	\$ 18.4
Customer backlog	10 months 9 - 12 months	1.4
Non-compete agreements	5 years 5 years	0.1
Trade name	1 year 1 year	0.2
Total acquired intangible assets		\$ 20.1

The results of the 2015 acquisitions' operations have been included in the Company's condensed consolidated financial statements since the respective acquisition date.

## Pro-forma Results of Operations

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The following presents the unaudited pro-forma combined results of operations of the Company with the 2015 acquisitions for the nine months ended September 30, 2015, after giving effect to certain pro-forma adjustments and assuming the 2015 acquisitions were acquired as of the beginning of 2014.

These unaudited pro-forma results are presented in compliance with the adoption of ASU No. 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, 2014 or of future results of operations of the consolidated entities (in thousands, except per share information):

	Nine Months Ended September 30, 2015
Revenues	\$ 359,433
Net income	\$ 17,448
Basic net income per share	\$ 0.52
Diluted net income per share	\$ 0.51
Shares used in computing basic net income per share	33,375
Shares used in computing diluted net income per share	34,445

## 8. 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, the Company performs an annual impairment review in the fourth quarter and more frequently if events or changes in circumstances indicate that goodwill might be impaired. There was no indication that goodwill became impaired as of September 30, 2016.

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

## Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2016 are as follows (in thousands):

Balance at December 31, 2015	\$269,383
Purchase accounting adjustments	195
Effect of foreign currency translation adjustments	(8 )
Balance at September 30, 2016	\$269,570

## Intangible Assets with Definite Lives

The following table presents a summary of the Company's intangible assets that are subject to amortization (in thousands):

	September 30, 2016			December 31, 2015		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer relationships	\$67,673	\$ (30,382 )	\$ 37,291	\$68,959	\$ (23,397 )	\$ 45,562
Non-compete agreements	858	(506 )	352	1,235	(719 )	516
Customer backlog	270	(225 )	45	350	(88 )	262
Trade name	60	(50 )	10	100	(33 )	67
Internally developed software	11,215	(3,673 )	7,542	9,500	(2,499 )	7,001
Total	\$80,076	\$ (34,836 )	\$ 45,240	\$80,144	\$ (26,736 )	\$ 53,408

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

Customer relationships	3 – 10 years
Non-compete agreements	3 – 5 years
Internally developed software	1 – 7 years
Trade name	1 year
Customer backlog	9 – 12 months

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Estimated annual amortization expense for the next five years ended December 31 and thereafter is as follows and excludes the impact of the acquisition referenced in Note 12, Subsequent Events (in thousands):

2016 remaining	\$2,981
2017	\$10,676
2018	\$9,718
2019	\$8,830
2020	\$5,493
Thereafter	\$7,542

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## 9. Line of Credit

Effective as of June 24, 2016, the Company entered into a fourth amendment (the "Fourth Amendment") to its Second Amended and Restated Credit Agreement with Silicon Valley Bank, U.S. Bank National Association, Bank of America, N.A., and Wells Fargo, National Association, dated as of July 31, 2013 (as previously amended, the "Credit Agreement"). The Fourth Amendment, among other things, extends the maturity date for all amounts due and payable under the Credit Agreement from July 31, 2017 to July 31, 2018, reduces the applicable margin for certain borrowings by 0.25% and increases the thresholds for acquisitions by the Company permitted under the Credit Agreement.

The Credit Agreement allows for revolving credit borrowings up to a maximum principal amount of \$125.0 million, subject to an additional commitment increase of \$50.0 million.

The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to \$10.0 million at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. As of September 30, 2016, the Company had no outstanding letters of credit. Substantially all of our assets are pledged to secure the credit facility.

Borrowings under the Credit Agreement bear interest at our option of the prime rate (3.50% on September 30, 2016) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.53% on September 30, 2016) plus a margin ranging from 1.75% to 2.25%. The additional margin amount is dependent on the level of outstanding borrowings. As of September 30, 2016, we had \$97.0 million of maximum available borrowing capacity. We incur an annual commitment fee of 0.20% 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.

At September 30, 2016, the Company was in compliance with all covenants under the Credit Agreement.

## 10. 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 of limitations has passed on returns for the years through 2010. The Company's 2011, 2012 and 2013 U.S. income tax returns are currently under examination by the IRS. The IRS has sought to disallow certain research credits on the Company's 2011 and 2012 U.S. income tax returns. The Company is actively appealing the IRS's initial findings. The Company believes the research credits taken are appropriate and intends to vigorously defend its position. The amount of adjustment, if any, and the timing of such adjustment is not reasonably estimable at this time.

Under the provisions of the ASC Subtopic 740-10-25, Income Taxes - Recognition, the Company had an unrecognized tax benefit of \$1.2 million as of September 30, 2016.

The Company's effective tax rate was 26.9% and 31.0% for the three and nine months ended September 30, 2016, respectively, compared to 33.4% and 30.5% for the three and nine months ended September 30, 2015, respectively. The decrease in the effective rate for the three months ended September 30, 2016 is primarily due to an additional research and development tax credit related to the current year and a favorable impact related to the early adoption of ASU No. 2016-09. See Note 13, Recent Accounting Pronouncements, for additional information regarding the adoption of ASU No. 2016-09. As of September 30, 2016, the Company's net non-current deferred tax liability was

\$8.9 million. Deferred tax liabilities relate to goodwill, intangibles, fixed asset depreciation, and prepaid expenses. Net non-current deferred tax liabilities are recorded in "Other non-current liabilities" on the Condensed Consolidated Balance Sheet as of September 30, 2016 (unaudited) and December 31, 2015.

#### 11. Financial Instruments

In the normal course of business, the Company uses derivative financial instruments to manage foreign currency exchange rate risk. Currency exposure is monitored and managed by the Company as part of its risk management program which seeks to reduce the potentially adverse effects that market volatility could have on operating results. The Company's derivative financial instruments consist of non-deliverable foreign currency forward contracts. Derivative financial instruments are neither held nor issued by the Company for trading purposes.

During the nine months ended September 30, 2016, the Company purchased \$0.9 million of publicly traded equity securities, which are classified as trading since it is the Company's intent to hold them for a short period of time. Trading securities of \$0.9 million are recorded at fair value within other current assets in the Unaudited Condensed Balance Sheet as of September 30, 2016. Gains or losses are recorded in net other expense (income) in the Unaudited Condensed Consolidated Statements of Operations. The net loss recognized during the three and nine months ended September 30, 2016 was immaterial.

## Derivatives Not Designated as Hedging Instruments

Both the gain or loss on the derivatives not designated as hedging instruments and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Realized gains or losses and changes in the estimated fair value of foreign currency forward contracts that have not been designated as hedges were a net loss of \$0.1 million and \$0.2 million during the three and nine months ended September 30, 2016, respectively. A net gain of \$0.1 million and a net loss of \$0.1 million was recognized during the three and nine months ended September 30, 2015, respectively. Gains and losses on these contracts are recorded in net other expense (income) and net interest expense in the Unaudited Condensed Consolidated Statements of Operations and are offset by losses and gains on the related hedged items.

The notional amounts of the Company's derivative instruments outstanding were as follows (in thousands):

	September 30, 2016	December 31, 2015
Derivatives not designated as hedges		
Foreign exchange contracts	\$ 5,185	\$ 3,215
Total derivatives not designated as hedges	\$ 5,185	\$ 3,215

## Fair Value of Financial Instruments

The authoritative guidance defines fair value as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The authoritative guidance also establishes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.