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PERFICIENT INC  
Form 10-Q  
November 05, 2015  
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, 2015

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 30, 2015, there were 35,321,578 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 Form 10-Q (this "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; and
  - h. risk of loss of one or more significant software vendors;
- (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, 2014 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," 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

(Unaudited)

|   | September<br>30,<br>2015                                     | December<br>31,<br>2014 |
|---|--|-------------------------|
|   | (In thousands, except<br>share and per share<br>information) |                         |
| <b>ASSETS</b>   |  |                         |
| Current assets:   |  |                         |
| Cash and cash equivalents   | \$8,692  | \$ 10,935               |
| Accounts receivable, net  | 111,894  | 113,928                 |
| Prepaid expenses  | 3,745  | 2,476                   |
| Other current assets  | 3,261  | 4,679                   |
| Total current assets  | 127,592  | 132,018                 |
| Property and equipment, net   | 8,040  | 7,966                   |
| Goodwill  | 259,140  | 236,130                 |
| Intangible assets, net  | 52,221   | 46,105                  |
| Other non-current assets  | 3,829  | 3,823                   |
| Total assets  | \$450,822  | \$426,042               |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |                         |
| Current liabilities:  |  |                         |
| Accounts payable  | \$13,768   | \$22,035                |
| Other current liabilities   | 27,884   | 33,028                  |
| Total current liabilities   | 41,652   | 55,063                  |
| Long-term debt  | 61,000   | 54,000                  |
| Other non-current liabilities   | 11,832   | 12,251                  |
| Total liabilities   | 114,484  | 121,314                 |
| Stockholders' equity:   |  |                         |
| Common stock (par value \$0.001 per share; 50,000,000 shares authorized; 44,560,497 shares issued and 33,911,347 shares outstanding as of September 30, 2015; 43,174,676 shares issued and 32,854,802 shares outstanding as of December 31, 2014) | 44   | 43                      |
| Additional paid-in capital  | 358,048  | 334,645                 |
| Accumulated other comprehensive loss  | (1,398 )   | (651 )                  |
| Treasury stock, at cost (10,649,150 shares as of September 30, 2015; 10,319,874 shares as of December 31, 2014)   | (101,837)  | (95,353 )               |
| Retained earnings   | 81,481   | 66,044                  |
| Total stockholders' equity  | 336,338  | 304,728                 |
| Total liabilities and stockholders' equity  | \$450,822  | \$426,042               |

See accompanying notes to interim unaudited condensed consolidated financial statements.

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Perficient, Inc.  
Condensed Consolidated Statements of Operations  
(Unaudited)

|   | Three Months Ended<br>September 30,          |          | Nine Months Ended<br>September 30, |           |
|---|--|----------|------------------------------------|-----------|
|   | 2015   | 2014     | 2015                               | 2014      |
|   | (In thousands, except per share information) |          |                                    |           |
| Revenues  |  |          |                                    |           |
| Services  | \$105,351                                    | \$99,975 | \$301,166                          | \$286,780 |
| Software and hardware   | 11,520                                       | 12,192   | 27,490                             | 31,108    |
| Reimbursable expenses   | 4,038  | 4,804    | 11,315                             | 12,962    |
| Total revenues  | 120,909                                      | 116,971  | 339,971                            | 330,850   |
| Cost of revenues (exclusive of depreciation and amortization, shown separately below) |  |          |                                    |           |
| Project personnel costs   | 64,465                                       | 61,442   | 188,901                            | 179,068   |
| Software and hardware costs   | 10,195                                       | 10,438   | 23,559                             | 27,333    |
| Reimbursable expenses   | 4,038  | 4,804    | 11,315                             | 12,962    |
| Other project related expenses  | 1,809  | 750      | 4,833                              | 2,644     |
| Total cost of revenues  | 80,507                                       | 77,434   | 228,608                            | 222,007   |
| Gross margin  | 40,402                                       | 39,537   | 111,363                            | 108,843   |
| Selling, general and administrative   | 23,715                                       | 22,239   | 72,571                             | 65,354    |
| Depreciation  | 1,148  | 932      | 3,322                              | 2,713     |
| Amortization  | 3,357  | 4,045    | 10,569                             | 10,511    |
| Acquisition costs   | 488  | (74 )    | 509                                | 2,495     |
| Adjustment to fair value of contingent consideration                                  | 99   | -        | 273                                | (1,463 )  |
| Income from operations  | 11,595                                       | 12,395   | 24,119                             | 29,233    |
| Net interest expense  | (501 )                                       | (462 )   | (1,602 )                           | (1,055 )  |
| Net other (expense) income  | (29 )  | 10       | (300 )                             | 79        |
| Income before income taxes  | 11,065                                       | 11,943   | 22,217                             | 28,257    |
| Provision for income taxes  | 3,691  | 4,637    | 6,780                              | 11,519    |
| Net income  | \$7,374                                      | \$7,306  | \$15,437                           | \$16,738  |
| Basic net income per share  | \$0.22                                       | \$0.23   | \$0.46                             | \$0.53    |
| Diluted net income per share  | \$0.22                                       | \$0.22   | \$0.45                             | \$0.51    |
| Shares used in computing basic net income per share                                   | 33,498                                       | 32,118   | 33,292                             | 31,470    |
| Shares used in computing diluted net income per share                                 | 34,187                                       | 33,329   | 34,163                             | 33,076    |

See accompanying notes to interim unaudited condensed consolidated financial statements.

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Perficient, Inc.  
 Condensed Consolidated Statements of Comprehensive Income  
 (Unaudited)

|   | Three Months<br>Ended<br>September 30,<br>2015 |         | Nine Months<br>Ended<br>September 30,<br>2015 |          |
|---|--|---------|---|----------|
|   | 2014   |         | 2014  |          |
|   | (In thousands)                                 |         | (In thousands)                                |          |
| Net income  | \$7,374  | \$7,306 | \$15,437                                      | \$16,738 |
| Other comprehensive income (loss), net of reclassification adjustments: |  |         |   |          |
| Foreign currency translation adjustment                                 | (595 )   | (99 )   | (747 )  | (128 )   |
| Comprehensive income  | \$6,779  | \$7,207 | \$14,690                                      | \$16,610 |

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.  
Condensed Consolidated Statement of Stockholders' Equity  
Nine Months Ended September 30, 2015  
(Unaudited)  
(In thousands)

|  | Common<br>Stock<br>Shares | Common<br>Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensiv<br>Loss | Treasury<br>Stock | Retained<br>Earnings | Total<br>Stockholders'<br>Equity |
|--|---------------------------|---------------------------|----------------------------------|--|-------------------|----------------------|----------------------------------|
| Balance at December 31, 2014   | 32,855                    | \$ 43                     | \$ 334,645                       | \$ (651 )                                    | \$(95,353 )       | \$ 66,044            | \$ 304,728                       |
| Proceeds from the exercise of<br>stock options and sales of stock<br>through the Employee Stock<br>Purchase Plan | 23                        | --                        | 284                              | --   | --                | --                   | 284                              |
| Net tax benefit from stock option<br>exercises and restricted stock<br>vesting                                   | --                        | --                        | 820                              | --   | --                | --                   | 820                              |
| Share-based compensation   | 529                       | --                        | 9,807                            | --   | --                | --                   | 9,807                            |
| Purchase of treasury stock and<br>buyback of shares for taxes  | (329 )                    | --                        | --                               | --   | (6,484 )          | --                   | (6,484 )                         |
| Issuance of stock for acquisitions   | 833                       | 1                         | 12,492                           | --   | --                | --                   | 12,493                           |
| Net income   | --                        | --                        | --                               | --   | --                | 15,437               | 15,437                           |
| Foreign currency translation<br>adjustment   | --                        | --                        | --                               | (747 )                                       | --                | --                   | (747 )                           |
| Balance at September 30, 2015  | 33,911                    | \$ 44                     | \$ 358,048                       | \$ (1,398 )                                  | \$(101,837)       | \$ 81,481            | \$ 336,338                       |

See accompanying notes to interim unaudited condensed consolidated financial statements.



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Perficient, Inc.  
Condensed Consolidated Statements of Cash Flows  
(Unaudited)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2015                               | 2014      |
|   | (In thousands)                     |           |
| <b>OPERATING ACTIVITIES</b>   |                                    |           |
| Net income  | \$15,437                           | \$16,738  |
| Adjustments to reconcile net income to net cash used in operations:                                     |                                    |           |
| Depreciation  | 3,322                              | 2,713     |
| Amortization  | 10,569                             | 10,511    |
| Deferred income taxes   | (351 )                             | 1,957     |
| Non-cash stock compensation and retirement savings plan contributions                                   | 9,807                              | 9,433     |
| Tax benefit from stock option exercises and restricted stock vesting                                    | (974 )                             | (2,052 )  |
| Adjustment to fair value of contingent consideration for purchase of business                           | 273                                | (1,463 )  |
| Changes in operating assets and liabilities, net of acquisitions:                                       |                                    |           |
| Accounts receivable   | 7,830                              | (30,713 ) |
| Other assets  | 2,365                              | 3,996     |
| Accounts payable  | (8,267 )                           | 5,800     |
| Other liabilities   | (13,759 )                          | (16,295 ) |
| Net cash provided by operating activities   | 26,252                             | 625       |
| <b>INVESTING ACTIVITIES</b>   |                                    |           |
| Purchase of property and equipment  | (2,462 )                           | (2,632 )  |
| Capitalization of software developed for internal use   | (819 )                             | (2,719 )  |
| Purchase of business, net of cash acquired  | (26,605 )                          | (46,534 ) |
| Net cash used in investing activities   | (29,886 )                          | (51,885 ) |
| <b>FINANCING ACTIVITIES</b>   |                                    |           |
| Proceeds from line of credit  | 201,500                            | 210,600   |
| Payments on line of credit  | (194,500)                          | (154,800) |
| Payments for credit facility financing fees   | (193 )                             | -         |
| Payment of contingent consideration for purchase of business  | -                                  | (1,197 )  |
| Tax benefit on stock option exercises and restricted stock vesting                                      | 974                                | 2,052     |
| Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan | 284                                | 1,373     |
| Purchases of treasury stock   | (2,840 )                           | (3,195 )  |
| Remittance of taxes withheld as part of a net share settlement of restricted stock vesting              | (3,644 )                           | (5,155 )  |
| Net cash provided by financing activities   | 1,581                              | 49,678    |
| Effect of exchange rate on cash and cash equivalents  | (190 )                             | (25 )     |
| Change in cash and cash equivalents   | (2,243 )                           | (1,607 )  |
| Cash and cash equivalents at beginning of period  | 10,935                             | 7,018     |
| Cash and cash equivalents at end of period  | \$8,692                            | \$5,411   |
| Supplemental disclosures:   |                                    |           |
| Cash paid for income taxes  | \$4,835                            | \$6,824   |
| Cash paid for interest  | \$1,487                            | \$833     |

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Non-cash activity:

|  |          |          |
|--|----------|----------|
| Stock issued for purchase of business  | \$12,493 | \$19,174 |
| Stock issued for settlement of contingent consideration for purchase of business | \$-      | \$730    |
| Estimated fair value of contingent consideration for purchase of business        | \$3,218  | \$127    |
| 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, 2015

## 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 accounting principles generally accepted in the United States 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, 2014. Operating results for the three and nine months ended September 30, 2015 may not be indicative of the results for the full fiscal year ending December 31, 2015.

Certain prior period financial statement amounts have been reclassified to conform to current period presentation. This reclassification primarily related to certain costs being reclassified from project personnel costs to other project related expenses within total cost of revenues in the condensed consolidated statement of operations.

## 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.

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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 ("ASC Topic 718"). 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 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.

#### 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, 2015 was approximately \$3.2 million and \$10.1 million, respectively, which included \$0.6 million 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. Stock-based compensation cost recognized for the three and nine months ended September 30, 2014 was approximately \$3.4 million and \$10.0 million, respectively, which included \$0.6 and \$1.6 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.0 million and \$3.1 million for the three and nine months ended September 30, 2014, respectively. As of September 30, 2015, there was \$14.5 million of total unrecognized compensation cost related to non-vested share-based awards and other incentive awards. This cost is expected to be recognized over a weighted-average period of two years.

Stock option activity for the nine months ended September 30, 2015 was as follows (shares in thousands):

|   | Shares | Weighted-Average<br>Exercise Price |
|---|--------|------------------------------------|
| Options outstanding at December 31, 2014  | 12     | \$ 7.48                            |
| Options exercised                         | (12 )  | 7.48                               |
| Options outstanding at September 30, 2015 | -      | -                                  |
| Options vested at September 30, 2015      | -      | \$ -                               |

Restricted stock activity for the nine months ended September 30, 2015 was as follows (shares in thousands):

|   | Shares | Weighted-Average<br>Grant Date Fair<br>Value |
|---|--------|--|
| Restricted stock awards outstanding at December 31, 2014  | 1,506  | \$ 15.39                                     |
| Awards granted  | 345    | 19.84  |
| Awards vested   | (438 ) | 13.39  |
| Awards forfeited  | (151 ) | 15.70  |
| Restricted stock awards outstanding at September 30, 2015 | 1,262  | \$ 17.19                                     |

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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<br>Ended<br>September 30, |         | Nine Months<br>Ended<br>September 30, |          |
|--|--|---------|---------------------------------------|----------|
|  | 2015                                   | 2014    | 2015                                  | 2014     |
| Net income   | \$7,374                                | \$7,306 | \$15,437                              | \$16,738 |
| Basic:   |  |         |                                       |          |
| Weighted-average shares of common stock outstanding  | 33,498                                 | 32,118  | 33,292                                | 31,470   |
| Shares used in computing basic net income per share  | 33,498                                 | 32,118  | 33,292                                | 31,470   |
| Effect of dilutive securities:   |  |         |                                       |          |
| Stock options  | -                                      | 8       | 1                                     | 78       |
| Restricted stock subject to vesting  | 368                                    | 528     | 409                                   | 571      |
| Contingently issuable shares (1)   | -                                      | 14      | -                                     | 17       |
| Shares issuable for acquisition consideration (2)  | 321                                    | 661     | 461                                   | 940      |
| Shares used in computing diluted net income per share  | 34,187                                 | 33,329  | 34,163                                | 33,076   |
| Basic net income per share   | \$0.22                                 | \$0.23  | \$0.46                                | \$0.53   |
| Diluted net income per share   | \$0.22                                 | \$0.22  | \$0.45                                | \$0.51   |
| Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share | 3                                      | -       | 37                                    | 97       |

(1) For the three and nine months ended September 30, 2014, this represents the Company's estimate of shares to be issued to Clear Task, Inc. ("Clear Task") pursuant to the Asset Purchase Agreement.

For the three and nine 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. ("ForwardThink"); (ii) the Asset Purchase Agreement with BioPharm Systems, Inc. ("BioPharm"); (iii) the Asset Purchase Agreement with Trifecta Technologies, Inc. and Trifecta Technologies Canada, Limited (together "Trifecta"); (iv) the Asset Purchase Agreement with Zeon (as defined below); and (v) the Stock Purchase Agreement for Market Street Solutions, Inc. ("Market Street") as part of the consideration. For the three and nine months ended September 30, 2014, this represents the shares held in escrow pursuant to: (i) the Agreement and Plan of Merger with Northridge Systems, Inc.; (ii) the Agreement and Plan of Merger with TriTek Solutions, Inc.; (iii) the Asset Purchase Agreement with Clear Task; (iv) the Asset Purchase Agreement with CoreMatrix Systems, LLC; (v) the Agreement and Plan of Merger with ForwardThink; (vi) the Asset Purchase Agreement with BioPharm; and (vii) the Asset Purchase Agreement with Trifecta as part of the consideration.

## 5. Commitments and Contingencies

The Company leases office space and certain equipment under various operating lease agreements. The Company has the option to extend the term of certain lease agreements. Future minimum commitments under these lease agreements as of September 30, 2015 were as follows (in thousands):

|                | Operating<br>Leases |
|----------------|---------------------|
| 2015 remaining | \$ 1,438            |
| 2016           | 5,704               |

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|                              |           |
|------------------------------|-----------|
| 2017                         | 4,863     |
| 2018                         | 3,378     |
| 2019                         | 2,705     |
| 2020 and thereafter          | 4,220     |
| Total minimum lease payments | \$ 22,308 |

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## 6. Balance Sheet Components

|  | September<br>30,<br>2015 | December<br>31,<br>2014 |  |
|--|--------------------------|-------------------------|--|
| (in thousands)   |                          |                         |  |
| Accounts receivable:   |                          |                         |  |
| Accounts receivable  | \$74,716                 | \$82,994                |  |
| Unbilled revenues  | 38,012                   | 31,845                  |  |
| Allowance for doubtful accounts                                | (834 )                   | (911 )                  |  |
| Total  | \$111,894                | \$113,928               |  |
| Property and equipment:  |                          |                         |  |
| Computer hardware (useful life of 3 years)                     | \$11,045                 | \$10,221                |  |
| Furniture and fixtures (useful life of 5 years)                | 2,948                    | 2,442                   |  |
| Leasehold improvements (useful life of 5 years)                | 2,484                    | 2,075                   |  |
| Software (useful life of 1 to 7 years)                         | 7,797                    | 6,828                   |  |
| Less: Accumulated depreciation                                 | (16,234)                 | (13,600)                |  |
| Total  | \$8,040                  | \$7,966                 |  |
| Other current liabilities:                                     |                          |                         |  |
| Accrued variable compensation                                  | \$9,091                  | \$15,060                |  |
| Deferred revenue   | 4,070                    | 5,945                   |  |
| Payroll related costs  | 2,057                    | 1,614                   |  |
| Accrued subcontractor fees                                     | 1,407                    | 871                     |  |
| Accrued medical claims expense                                 | 1,767                    | 1,615                   |  |
| Acquired liabilities   | 1,495                    | 2,603                   |  |
| Estimated fair value of contingent consideration liability (1) | 3,491                    | -                       |  |
| Other current liabilities                                      | 4,506                    | 5,320                   |  |
| Total  | \$27,884                 | \$33,028                |  |

(1) Represents the fair value estimate of additional earnings-based contingent consideration that may be realized by Zeon's and Market Street's selling shareholders 12 months after the applicable acquisition.

## 7. Business Combinations

2014 AcquisitionsForwardThink

On February 10, 2014, the Company acquired ForwardThink, pursuant to the terms of an Agreement and Plan of Merger. ForwardThink was a financial services and solutions consulting firm. The acquisition of ForwardThink expanded the Company's financial services vertical, including the Company's presence in the New York area.

The Company's total allocable purchase price consideration was \$40.1 million. The purchase price was comprised of \$26.9 million in cash paid (net of cash acquired) and \$13.2 million of Company common stock issued at closing. The Company incurred approximately \$1.3 million in transaction costs, which were expensed when incurred. The Company acquired certain equity awards which were replaced with a cash incentive plan pursuant to the Agreement and Plan of Merger. These awards are recognized separately from the acquisition of assets and assumptions of liabilities in the business combination and will be recognized as compensation expense within the Condensed Consolidated Statements of Operations (Unaudited). Approximately \$0.8 million of expense will be recorded over

three years and will be recognized ratably over the awards service period.

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

|                            |        |
|----------------------------|--------|
| Acquired tangible assets   | \$4.6  |
| Acquired intangible assets | 18.0   |
| Liabilities assumed        | (12.1) |
| Goodwill                   | 29.6   |
| Total purchase price       | \$40.1 |

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

### BioPharm

On April 1, 2014, the Company acquired substantially all of the assets of BioPharm Systems, Inc., a California corporation ("California BioPharm"), and all of the outstanding stock of BioPharm Systems, Inc., a Delaware corporation (together with California BioPharm, "BioPharm"), pursuant to the terms of an Asset Purchase Agreement and a Stock Purchase Agreement. BioPharm was a business and information technology consulting firm focused on the life sciences industry. The acquisition of BioPharm expanded the Company's industry vertical expertise with the addition of a dedicated life sciences vertical.

The Company's total allocable purchase price consideration was \$16.3 million. The purchase price was comprised of \$11.2 million in cash paid (net of cash acquired) and \$5.1 million in Company common stock issued at closing. The Company incurred approximately \$0.7 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   | \$3.5  |
| Acquired intangible assets | 8.4    |
| Liabilities assumed        | (1.9)  |
| Goodwill                   | 6.3    |
| Total purchase price       | \$16.3 |

The amount of goodwill expected to be deductible for tax purposes is \$6.1 million. The Company estimated that the intangible assets acquired have useful lives of nine months to ten years.

### Trifecta

On May 7, 2014, the Company acquired substantially all of the assets related to the eCommerce business of Trifecta Technologies, Inc. and Trifecta Technologies Canada, Limited (together, "Trifecta"), pursuant to the terms of an Asset Purchase Agreement. Trifecta was a business and information technology consulting firm focused on IBM WebSphere Commerce solutions. The acquisition of Trifecta expanded the Company's ability to deliver larger, more powerful commerce solutions.

The Company's total allocable purchase price consideration was \$13.6 million. Of the \$13.6 million in total allocable purchase price consideration, \$8.2 million was paid in cash and the remainder represents an assumption of liabilities. The Company incurred approximately \$0.6 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   | \$1.6 |
| Acquired intangible assets | 5.2   |
| Liabilities assumed        | (5.7) |
| Goodwill                   | 7.1   |
| Total cash purchase price  | \$8.2 |

The amount of goodwill expected to be deductible for tax purposes is \$6.8 million. The Company estimated that the intangible assets acquired have useful lives of eight months to five years.

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2015 AcquisitionsZeon

On January 2, 2015, the Company acquired substantially all of the assets of Zeon Solutions Incorporated, a Wisconsin corporation, Grand River Interactive LLC, a Michigan limited liability company, and their Indian affiliate, Zeon Solutions Private Limited (collectively, "Zeon"), pursuant to the terms of an Asset Purchase Agreement. The acquisition of Zeon expanded the Company's expertise in the support of e-commerce and digital agency solutions.

The Company has initially estimated the total allocable purchase price consideration to be \$36.5 million. The purchase price was comprised of \$22.9 million in cash paid and \$11.4 million in Company common stock issued at closing increased by \$2.2 million representing the initial fair value estimate of additional earnings-based contingent consideration, which may be realized by Zeon twelve months after the closing date of the acquisition. The Company incurred approximately \$0.9 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   | \$8.6  |
| Acquired intangible assets | 12.7   |
| Liabilities assumed        | (2.9)  |
| Goodwill                   | 18.1   |
| Total purchase price       | \$36.5 |

The amount of goodwill expected to be deductible for tax purposes is \$17.1 million. The Company estimated that the intangible assets acquired have useful lives of nine months to eight years.

Market Street

On September 17, 2015, the Company acquired Market Street Solutions, Inc. ("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 has initially estimated the total allocable purchase price consideration to be \$5.1 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 \$1.0 million representing the initial fair value estimate of additional earnings-based contingent consideration, which may be realized by Market Street 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 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   | \$1.3 |
| Acquired intangible assets | 3.1   |
| Liabilities assumed        | (3.2) |
| Goodwill                   | 3.9   |
| Total purchase price       | \$5.1 |

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.

The accounting for both of the 2015 acquisitions is preliminary and subject to subsequent adjustment as the Company 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 2015 acquisitions' operations have been included in the Company's condensed consolidated financial statements since the respective acquisition date.

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The amount of revenue and net income of the 2015 acquisitions in the Company's Condensed Consolidated Statements of Operations (Unaudited) from the respective acquisition dates to September 30, 2015 are as follows (in thousands):

|            |   |
|------------|---|
|            | Acquisition<br>Date to<br>September<br>30, 2015 |
| Revenues   | \$ 22,024                                       |
| Net income | \$ 1,800  |

#### Pro-forma Results of Operations

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 and the 2014 and 2015 acquisitions for the nine months ended September 30, 2014, after giving effect to certain pro-forma adjustments and assuming the 2015 acquisitions were acquired as of the beginning of 2014 and assuming the 2014 acquisitions were acquired as of the beginning of 2013.

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, 2014 or January 1, 2013 or of future results of operations of the consolidated entities (in thousands, except per share information):

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2015                               | 2014      |
| Revenues  | \$348,204                          | \$362,907 |
| Net income  | \$17,076                           | \$19,079  |
| Basic net income per share                            | \$0.50                             | \$0.58    |
| Diluted net income per share                          | \$0.50                             | \$0.56    |
| Shares used in computing basic net income per share   | 33,832                             | 33,161    |
| Shares used in computing diluted net income per share | 34,241                             | 34,166    |

#### 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 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.

Other intangible assets include customer relationships, non-compete arrangements, customer backlog, 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 nine months to ten years. Amortization of customer relationships, non-compete arrangements, customer backlog, trade names, and internally developed software is considered an operating expense and is included in "Amortization" in the accompanying Condensed Consolidated Statements of Operations (Unaudited). 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, 2015 are as follows (in thousands):

|  |           |
|--|-----------|
| Balance at December 31, 2014                                     | \$236,130 |
| Preliminary purchase price allocations for acquisitions (Note 7) | 22,043    |
| Effect of foreign currency adjustments and other                 | 967       |
| Balance at September 30, 2015                                    | \$259,140 |



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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, 2015     |                          |                      | December 31, 2014      |                          |                      |
|-------------------------------|------------------------|--------------------------|----------------------|------------------------|--------------------------|----------------------|
|                               | Gross Carrying Amounts | Accumulated Amortization | Net Carrying Amounts | Gross Carrying Amounts | Accumulated Amortization | Net Carrying Amounts |
| Customer relationships        | \$65,079               | \$ (20,692 )             | \$44,387             | \$54,389               | \$ (16,595 )             | \$37,794             |
| Non-compete agreements        | 1,593                  | (1,042 )                 | 551                  | 1,601                  | (866 )                   | 735                  |
| Customer backlog              | 80                     | (43 )                    | 37                   | 2,341                  | (2,265 )                 | 76                   |
| Trade name                    | 128                    | (82 )                    | 46                   | 167                    | (148 )                   | 19                   |
| Internally developed software | 9,361                  | (2,161 )                 | 7,200                | 8,897                  | (1,416 )                 | 7,481                |
| Total                         | \$76,241               | \$ (24,020 )             | \$52,221             | \$67,395               | \$ (21,290 )             | \$46,105             |

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 months     |

9. Line of Credit

Effective as of January 2, 2015, the Company entered into a second amendment and consent (the "Second Amendment") to its credit agreement with Silicon Valley Bank ("SVB"), U.S. Bank National Association, and Bank of America, N.A. (as amended, the "Credit Agreement"), pursuant to which the Company and the lenders, including Wells Fargo, National Association, as a new lender, increased the amount of available borrowing capacity thereunder by \$35.0 million, allowing for revolving credit borrowings up to a maximum principal amount of \$125.0 million, subject to an additional commitment increase of \$50.0 million. Prior to the Second Amendment, the credit agreement allowed for revolving credit borrowing up to a maximum principal amount of \$90.0 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 \$10.0 million at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. As of September 30, 2015, the Company had one outstanding letter of credit in the amount of \$0.2 million to secure an office space lease. Substantially all of our assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of July 31, 2017. Borrowings under the Credit Agreement bear interest at our option of SVB's prime rate (4.00% on September 30, 2015) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.19% on September 30, 2015) plus a margin ranging from 2.00% to 2.50%. The additional margin amount is dependent on the level of outstanding borrowings. As of September 30, 2015, we had \$63.8 million of maximum 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, 2015, 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 and 2012 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 U.S. income tax return. 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.

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Under the provisions of the ASC Subtopic 740-10-25, Income Taxes - Recognition, the Company had an unrecognized tax benefit of \$0.8 million as of September 30, 2015.

The Company's effective tax rate was 33.4% and 30.5% for the three and nine months ended September 30, 2015, respectively, compared to 38.8% and 40.8% for the three and nine months ended September 30, 2014, respectively. The decrease in the effective rate is primarily due to an additional research and development tax credit recorded during the three and nine months ended September 30, 2015 related to the finalization of the Company's 2014 research and development tax assessment. As of September 30, 2015, the Company's net current deferred tax asset was \$0.7 million and its net non-current deferred tax liability was \$7.7 million. Generally, deferred tax assets are related to stock compensation, accruals and net operating losses of acquired companies. Deferred tax liabilities relate to goodwill, intangibles, fixed asset depreciation, and prepaid expenses. Net current deferred tax assets are recorded in "Other current assets" and net non-current deferred tax liabilities are recorded in "Other non-current liabilities" on the accompanying Condensed Consolidated Balance Sheet (Unaudited) as of September 30, 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. Financial instruments are neither held nor issued by the Company for trading purposes.

### 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 gain of \$0.1 million and a net loss of \$0.1 million during the three and nine months ended September 30, 2015, respectively. No gains and losses were recognized during the three and nine months ended September 30, 2014. Gains and losses on these contracts are recorded in net other income (expense) and net interest expense in the Condensed Consolidated Statements of Operations (Unaudited) 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<br>30, 2015 | December 31, 2014 |
|--|-----------------------|-------------------|
| Derivatives not designated as hedges       |                       |                   |
| Foreign exchange contracts                 | \$ 3,277              | \$ -              |
| Total derivatives not designated as hedges | \$ 3,277              | \$ -              |

### Fair Value of Derivative 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.

- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The Company estimates the fair value of each foreign exchange forward contract by using a present value of expected cash flows model. This model calculates the difference between the current market forward price and the contracted forward price for each foreign exchange contract and applies the difference in the rates to each outstanding contract. Valuations for all derivatives fall within Level 2 of the GAAP valuation hierarchy. The fair value of the Company's derivative instruments outstanding as of September 30, 2015 was immaterial.

Derivatives may give rise to credit risks from the possible non-performance by counterparties. Credit risk is generally limited to the fair value of those contracts that are favorable to us. The Company has limited its credit risk by entering into derivative transactions only with highly-rated global financial institutions, limiting the amount of credit exposure with any one financial institution and conducting ongoing evaluation of the creditworthiness of the financial institutions with which the Company does business.

The Company utilizes standard counterparty master agreements containing provisions for the netting of certain foreign currency transaction obligations and for the set-off of certain obligations in the event of an insolvency of one of the parties to the transaction. Within the Condensed Consolidated Balance Sheets (Unaudited), the Company records derivative assets and liabilities at net fair value.

## 12. Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. On April 1, 2015, the FASB voted to propose to defer the effective date of ASU 2014-09 by one year. The new standard is to become effective for the Company on January 1, 2018. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this update. This standard is to become effective for the Company on January 1, 2016 and requires using a retrospective approach. The Company does not expect the adoption of ASU 2015-03 to have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05 Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, which provides specific guidance on the recognition of fees paid by a customer for cloud computing arrangements as either the acquisition of a software license or a service contract. This standard is to become effective for the Company on January 1, 2016. The Company is currently evaluating the impact this guidance will have on the consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16 Simplifying the Accounting for Measurement-Period Adjustments, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after the acquisition date. This standard is to become effective for the Company on January 1, 2016. The Company does not expect the adoption of ASU 2015-16 to have a material impact on the Company's consolidated financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements made in this Form 10-Q, including without limitation this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements may sometimes be identified by such words as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. We believe that it is important to communicate our future expectations to investors. However, these forward-looking statements involve many risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking statements as a result of certain factors, including but not limited to, those set forth under "Risk Factors" in our Annual Report on Form 10-K previously filed with the SEC and elsewhere in this Form 10-Q. We are under no duty to update any of the forward-looking statements after the date of this Form 10-Q to conform these statements to actual results. For additional information, see the "Special Note Regarding Forward-Looking Statements" contained in this Form 10-Q.

## 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 19% and 17% of our services revenues for the respective three and nine months ended September 30, 2015 compared to 10% for each of the three and nine months ended September 30, 2014. The increase in fixed fee revenues is attributable to the Company's acquisition of substantially all of the assets of Zeon Solutions Incorporated and certain related entities (collectively, "Zeon"). 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 and internally developed software and hardware. Revenues from sales of third-party software and hardware are generally recorded on a gross basis provided that 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 excluding internally developed software 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, research and development 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. 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.

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## Results of Operations

Three months ended September 30, 2015 compared to three months ended September 30, 2014

Revenues. Total revenues increased 3% to \$120.9 million for the three months ended September 30, 2015 from \$117.0 million for the three months ended September 30, 2014.

|                                | Financial Results<br>(in thousands)                          |  |   | Explanation for<br>Increases<br>Over Prior Year<br>Period<br>(in thousands) |  |
|--------------------------------|--|--|---|---|--|
|                                | For the<br>Three<br>Months<br>Ended<br>September<br>30, 2015 | For the<br>Three<br>Months<br>Ended<br>September<br>30, 2014 | Total<br>Increase<br>(Decrease)<br>Over Prior<br>Year<br>Period | Increase<br>Attributable<br>to<br>Acquired<br>Companies                     | Decrease<br>Attributable<br>to<br>Base<br>Business |
| Services revenues              | \$105,351  | \$99,975   | \$ 5,376  | \$6,664   | \$ (1,288 )  |
| Software and hardware revenues | 11,520   | 12,192   | (672 )  | 987   | (1,659 )   |
| Reimbursable expenses          | 4,038  | 4,804  | (766 )  | 398   | (1,164 )   |
| Total revenues                 | \$120,909  | \$116,971  | \$ 3,938  | \$8,049   | \$ (4,111 )  |

Services revenues increased 5% to \$105.4 million for the three months ended September 30, 2015 from \$100.0 million for the three months ended September 30, 2014. Services revenues attributable to our base business decreased by \$1.3 million while services revenues contributed by acquired companies were \$6.7 million, resulting in a total increase of \$5.4 million.

Software and hardware revenues decreased 6% to \$11.5 million for the three months ended September 30, 2015 from \$12.2 million for the three months ended September 30, 2014, primarily due to a decrease in initial and renewal software license sales. Reimbursable expenses decreased 16% to \$4.0 million for the three months ended September 30, 2015 from \$4.8 million for the three months ended September 30, 2014. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 4% to \$80.5 million for the three months ended September 30, 2015 from \$77.4 million for the three months ended September 30, 2014. The increase in cost of revenues is primarily related to costs associated with services revenues, which increased 7% to \$66.3 million for the three months ended September 30, 2015 from \$62.2 million for the three months ended September 30, 2014. Software and hardware costs decreased 2% to \$10.2 million for the three months ended September 30, 2015 from \$10.4 million for the three months ended September 30, 2014, as a result of a decrease in software license sales.

Gross Margin. Gross margin increased 2% to \$40.4 million for the three months ended September 30, 2015 from \$39.5 million for the three months ended September 30, 2014. Gross margin as a percentage of revenues decreased to 33.4% for the three months ended September 30, 2015 from 33.8% for the three months ended September 30, 2014, primarily due to the reduced services gross margins. Services gross margin, excluding reimbursable expenses, decreased to 37.1% or \$39.1 million for the three months ended September 30, 2015 from 37.8% or \$37.8 million for the three months ended September 30, 2014 primarily driven by a decline in average bill rates and higher salary and benefit costs. The average bill rate of our professionals excluding subcontractors and offshore resources, for the three months ended September 30, 2015, was \$144 per hour compared to \$150 per hour for the three months ended September 30, 2014.

Selling, General and Administrative. SG&A expenses increased 7% to \$23.7 million for the three months ended September 30, 2015 from \$22.2 million for the three months ended September 30, 2014, primarily due to acquisitions and an increase in salaries, recruiting and technology related costs. These contributors were partially offset by lower bad debt expense. SG&A expenses, as a percentage of revenues, increased to 19.6% for the three months ended September 30, 2015 from 19.0% for the three months ended September 30, 2014, primarily due to the factors noted above.

Depreciation. Depreciation expense increased 23% to \$1.1 million for the three months ended September 30, 2015 from \$0.9 million for the three months ended September 30, 2014. The increase in depreciation expense is primarily attributable to acquisitions and the implementation of an enterprise resource planning system. Depreciation expense as a percentage of revenues was 0.9% for the three months ended September 30, 2015 and 0.8% for the three months ended September 30, 2014.

Amortization. Amortization expense decreased 17% to \$3.4 million for the three months ended September 30, 2015 from \$4.0 million for the three months ended September 30, 2014. The decrease in amortization expense is due to intangible assets related to previous acquisitions becoming fully amortized partially offset by the addition of intangible assets from recent acquisitions. Amortization expense as a percentage of revenues was 2.8% for the three months ended September 30, 2015 and 3.5% for the three months ended September 30, 2014.

Acquisition Costs. Acquisition-related costs were \$0.5 million for the three months ended September 30, 2015 and were immaterial for the three months ended September 30, 2014. These acquisition-related costs were incurred for legal, advisory, accounting, and valuation services performed by third parties.

Adjustment to Fair Value of Contingent Consideration. A fair value adjustment of \$0.1 million was recorded during the three months ended September 30, 2015 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the acquisition of Zeon and Market Street. There were no adjustments to the fair value of contingent consideration during the three months ended September 30, 2014.

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 33.4% for the three months ended September 30, 2015 from 38.8% for the three months ended September 30, 2014. The decrease in the effective tax rate is primarily due to an additional research and development tax credit recorded during the three months ended September 30, 2015 of approximately \$0.5 million related to the finalization of the Company's 2014 research and development tax assessment.

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Nine months ended September 30, 2015 compared to nine months ended September 30, 2014

Revenues. Total revenues increased 3% to \$340.0 million for the nine months ended September 30, 2015 from \$330.9 million for the nine months ended September 30, 2014.

|                                | Financial Results<br>(in thousands)                         |   |   | Explanation for<br>Increases<br>Over Prior Year<br>Period<br>(in thousands) |  |
|--------------------------------|---|---|---|---|--|
|                                | For the<br>Nine<br>Months<br>Ended<br>September<br>30, 2015 | For the<br>Nine<br>Months<br>Ended<br>September<br>30, 2014 | Total<br>Increase<br>(Decrease)<br>Over Prior<br>Year<br>Period | Increase<br>Attributable<br>to<br>Acquired<br>Companies                     | Decrease<br>Attributable<br>to<br>Base<br>Business |
| Services revenues              | \$301,166   | \$286,780   | \$ 14,386   | \$22,141  | \$ (7,755 )  |
| Software and hardware revenues | 27,490  | 31,108  | (3,618 )  | 1,078   | (4,696 )   |
| Reimbursable expenses          | 11,315  | 12,962  | (1,647 )  | 1,303   | (2,950 )   |
| Total revenues                 | \$339,971   | \$330,850   | \$ 9,121  | \$24,522  | \$ (15,401 )                                       |

Services revenues increased 5% to \$301.2 million for the nine months ended September 30, 2015 from \$286.8 million for the nine months ended September 30, 2014. Services revenues attributable to our base business decreased by \$7.8 million while services revenues contributed by acquired companies were \$22.1 million, resulting in a total increase of \$14.4 million.

Software and hardware revenues decreased 12% to \$27.5 million for the nine months ended September 30, 2015 from \$31.1 million for the nine months ended September 30, 2014, primarily due to a decrease in initial and renewal software license sales. Reimbursable expenses decreased 13% to \$11.3 million for the nine months ended September 30, 2015 from \$13.0 million for the nine months ended September 30, 2014. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 3% to \$228.6 million for the nine months ended September 30, 2015 from \$222.0 million for the nine months ended September 30, 2014. The increase in cost of revenues is primarily related to costs associated with services revenues which increased 7% to \$193.7 million for the nine months ended September 30, 2015 from \$181.7 million due to an increase in revenue as noted above. This increase was partially offset by a decrease in software and hardware costs which decreased 14% to \$23.6 million for the nine months ended September 30, 2015 from \$27.3 million for the nine months ended September 30, 2014, as a result of the decrease in software license sales.

Gross Margin. Gross margin increased 2% to \$111.4 million for the nine months ended September 30, 2015 from \$108.8 million for the nine months ended September 30, 2014. Gross margin as a percentage of revenues remained relatively flat at 32.8% for the nine months ended September 30, 2015 and 2014. Services gross margin as a percentage of revenues, excluding reimbursable expenses, decreased to 35.7% or \$107.4 million for the nine months ended September 30, 2015 from 36.6% or \$105.1 million for the nine months ended September 30, 2014. The decrease in services gross margin as a percentage of revenues is primarily a result of a decline in average bill rates and higher salaries and benefits costs. The average bill rate for our professionals, excluding subcontractors and offshore resources, decreased to \$144 per hour for the nine months ended September 30, 2015 from \$146 per hour for the nine months ended September 30, 2014.

Selling, General and Administrative. SG&A expenses increased 11% to \$72.6 million for the nine months ended September 30, 2015 from \$65.4 million for the nine months ended September 30, 2014, primarily due to an increase in salaries, technology, office and benefits costs. These contributors were partially offset by lower bad debt expense. SG&A expenses, as a percentage of revenues, increased to 21.3% for the nine months ended September 30, 2015 from 19.8% for the nine months ended September 30, 2014 as a result of higher salaries and benefit costs.

Depreciation. Depreciation expense increased 22% to \$3.3 million for the nine months ended September 30, 2015 from \$2.7 million for the nine months ended September 30, 2014. The increase in depreciation expense is primarily attributable to acquisitions and the implementation of an enterprise resource planning system. Depreciation expense as a percentage of revenues was 1.0% for the nine months ended September 30, 2015 and 0.8% for the nine months ended September 30, 2014.

Amortization. Amortization expense increased 1% to \$10.6 million for the nine months ended September 30, 2015 from \$10.5 million for the nine months ended September 30, 2014. The increase in amortization expense is due to the addition of intangible assets from acquisitions and the implementation of an enterprise resource planning system. Amortization expense as a percentage of revenues was 3.1% for the nine months ended September 30, 2015 and 3.2% for the nine months ended September 30, 2014.

Acquisition Costs. Acquisition-related costs were \$0.5 million for the nine months ended September 30, 2015 and were related to the acquisition of Market Street during the three months ended September 30, 2015. Acquisition costs were \$2.5 million for the nine months ended September 30, 2014 and were related to the acquisitions of ForwardThink, BioPharm, and Trifecta. These acquisition-related costs were incurred for legal, advisory, accounting, and valuation services performed by third parties.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$0.3 million was recorded during the nine months ended September 30, 2015 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the acquisition of Zeon and Market Street. An adjustment of \$1.5 million was recorded during the nine months ended September 30, 2014 which represents the net impact of the fair market value adjustments to the contingent consideration of the CoreMatrix and Clear Task 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 30.5% for the nine months ended September 30, 2015 from 40.8% for the nine months ended September 30, 2014. The decrease in the effective rate is primarily due to an additional research and development tax credit recorded during the nine months ended September 30, 2015 of approximately \$1.4 million related to the finalization of the Company's 2014 research and development tax assessment. Our effective rate for the nine months ended September 30, 2014 included the impact of the expiration of the research and development tax credit for 2014, which was not reenacted by Congress until December 2014.

## Liquidity and Capital Resources

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

|   | As of<br>September<br>30, 2015 | As of<br>December<br>31, 2014 |
|---|--------------------------------|-------------------------------|
| Cash, cash equivalents and investments                    | \$ 8.7                         | \$ 10.9                       |
| Working capital (including cash and cash equivalents) (1) | \$ 85.9                        | \$ 77.0                       |
| Amounts available under credit facilities                 | \$ 63.8                        | \$ 35.8                       |

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

## Net Cash Provided By Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2015 was \$26.3 million compared to \$0.6 million for the nine months ended September 30, 2014. For the nine months ended September 30, 2015, the primary components of operating cash flows were net income of \$15.4 million plus non-cash charges of \$22.6 million, offset by working capital investments of \$11.8 million. The primary components of operating cash flows for the nine months ended September 30, 2014 were net income of \$16.7 million plus non-cash charges of \$21.1 million, offset by working capital investments of \$37.2 million. The change in working capital investments is primarily due to the collection of accounts receivable offset by a decrease in accounts payable.

## Net Cash Used In Investing Activities

During the nine months ended September 30, 2015, we used \$26.6 million for acquisitions and \$3.3 million to purchase property and equipment and to develop certain software for internal use. During the nine months ended September 30, 2014, we used \$46.5 million for acquisitions and \$5.4 million to purchase property and equipment and to develop certain software for internal use.

## Net Cash Provided By Financing Activities

During the nine months ended September 30, 2015, we drew down \$201.5 million from our line of credit and we realized a tax benefit 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 \$1.3 million. We repaid \$194.5 million on our line of credit, used \$2.8 million to repurchase shares of our common stock through the stock repurchase program, used \$3.6 million to remit taxes withheld as part of a net share settlement of restricted stock vesting, and made \$0.2 million in payments for credit facility financing fees. For the nine months ended September 30, 2014, we borrowed \$210.6 million on our line of credit and we realized a tax benefit 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 \$3.4 million. We repaid \$154.8 million on our line of credit, used \$3.2 million to repurchase shares of our common stock through the stock repurchase program, used \$1.2 to settle the contingent consideration for the purchase of Clear Task, and used \$5.2 million to remit taxes withheld as part of a net share settlement of restricted stock vesting.

## Availability of Funds from Line of Credit Facility

Effective as of January 2, 2015, the Company entered into a second amendment and consent (the "Second Amendment") to its credit agreement with Silicon Valley Bank ("SVB"), U.S. Bank National Association, and Bank of America, N.A. (as amended, the "Credit Agreement"), pursuant to which the Company and the lenders, including

Wells Fargo, National Association, as a new lender, increased the amount of available borrowing capacity thereunder by \$35.0 million, allowing for revolving credit borrowings up to a maximum principal amount of \$125.0 million, subject to an additional commitment increase of \$50.0 million. Prior to the Second Amendment, the credit agreement allowed for revolving credit borrowing up to a maximum principal amount of \$90.0 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 \$10.0 million at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. As of September 30, 2015, the Company had one outstanding letter of credit in the amount of \$0.2 million to secure an office space lease. Substantially all of our assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of July 31, 2017. Borrowings under the Credit Agreement bear interest at our option of SVB's prime rate (4.00% on September 30, 2015) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.19% on September 30, 2015) plus a margin ranging from 2.00% to 2.50%. The additional margin amount is dependent on the level of outstanding borrowings. As of September 30, 2015, we had \$63.8 million of maximum borrowing capacity. We incur an annual commitment fee of 0.20% on the unused portion of the line of credit.

At September 30, 2015, the Company was in compliance with all its covenants under the Credit Agreement.

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### Stock Repurchase Program

Prior to 2014, our Board of Directors authorized the repurchase of up to \$90.0 million of our common stock. On November 4, 2014, our Board of Directors authorized the expansion of our stock repurchase program by authorizing the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$100.0 million and extended the expiration date of the program from December 31, 2014 to June 30, 2016.

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 \$84.4 million (9.6 million shares) of our outstanding common stock through September 30, 2015.

### Contractual Obligations

There were no material changes outside the ordinary course of our business in lease obligations in the first nine months of 2015.

As of September 30, 2015, there was \$61.0 million outstanding under the Credit Agreement as compared to \$54.0 million as of December 31, 2014. The amounts are classified as "Long-term debt" within the Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2015 and December 31, 2014 and will become due and payable no later than the final maturity date of July 31, 2017.

### Off Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Conclusion

Of the total cash and cash equivalents of \$8.7 million reported on the Condensed Consolidated Balance Sheet (Unaudited) as of September 30, 2015, approximately \$5.8 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 fully described in Note 2, Summary of Significant Accounting Policies, to our Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2014. We believe our most critical accounting policies include revenue recognition, accounting for goodwill and intangible assets, purchase accounting, accounting for stock-based compensation, and accounting for income taxes.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### 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 September 30, 2015, we were exposed to changes in exchange rates between the U.S. Dollar and the Canadian Dollar, Chinese Yuan, Indian Rupee, British Pound, and Euro. We hedge material cash flow exposures when feasible using forward contracts. These instruments are subject to fluctuations in foreign currency exchange rates and credit risk. Credit risk is managed through careful selection and ongoing evaluation of the financial institutions utilized as counterparties. Refer to Note 11, Financial Instruments, for further discussion.

#### Interest Rate Sensitivity

As of September 30, 2015, there was \$61.0 million outstanding and \$63.8 million of available borrowing capacity under the Credit Agreement. 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 \$61.0 million outstanding on the line of credit as of September 30, 2015, an increase in the interest rate of 100 basis points would add \$610,000 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 \$8.7 million at September 30, 2015 and \$10.9 million at December 31, 2014. 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 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit 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 our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of the disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on that evaluation, our management, with the participation of our principal executive officer and principal financial officer, concluded that these disclosure controls and procedures were effective.

There was no change in our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the three months ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting except for the system implementation described below.



## PART II. OTHER INFORMATION

## Item 1A. Risk Factors

In evaluating all forward-looking statements, you should specifically consider various risk factors that may cause actual results to vary from those contained in the forward-looking statements. Our risk factors are included in our Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC on March 6, 2015 and available at [www.sec.gov](http://www.sec.gov). There have been no other material changes to such risk factors since the filing of such reports.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Securities

## Stock Repurchase Program

Prior to 2014, our Board of Directors authorized the repurchase of up to \$90.0 million of our common stock. On November 4, 2014, our Board of Directors authorized the expansion of our stock repurchase program by authorizing the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$100.0 million and extended the expiration date of the program from December 31, 2014 to June 30, 2016.

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 \$84.4 million of our outstanding common stock through September 30, 2015.

| Period                                  | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share<br>(1) | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | Approximate<br>Dollar Value<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|---|---|--|--|--|
| Beginning balance as of June 30, 2015   | 9,553,624                                 | \$ 8.83                                      | 9,553,624  | \$15,641,949   |
| July 1-31, 2015                         | -   | -  | -  | \$15,641,949   |
| August 1-31, 2015                       | -   | -  | -  | \$15,641,949   |
| September 1-30, 2015                    | -   | -  | -  | \$15,641,949   |
| Ending balance as of September 30, 2015 | 9,553,624                                 | \$ 8.83                                      | 9,553,624  |  |

(1) Average price paid per share includes commission.

## Item 5. Other Information

None.

## Item 6. Exhibits

The exhibits filed as part of this Report on Form 10-Q are listed in the Exhibit Index immediately preceding the exhibits.

SIGNATURES

Pursuant to the requirements 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: November 5, 2015 By: /s/ Jeffrey S. Davis  
Jeffrey S. Davis  
Chief Executive Officer (Principal Executive Officer)

Date: November 5, 2015 By: /s/ Paul E. Martin  
Paul E. Martin  
Chief Financial Officer (Principal Financial Officer)

EXHIBITS INDEX

| Exhibit<br>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 (File No. 000-51167) 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., 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, 2012 filed March 7, 2013 and incorporated herein by reference  |
| 4.1               | Specimen Certificate for shares of Perficient, Inc. common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our Quarterly Report on Form 10-Q filed May 7, 2009 and incorporated herein by reference   |
| 10.1*             | Amendment No. 3 and Consent to Second Amended and Restated Credit Agreement, dated September 22, 2015, by and among Perficient, Inc., the Lenders party thereto and Silicon Valley Bank, as Lead Arranger, Book Manager, Swingline Lender and as Administrative Agent for the Lenders  |
| 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 Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2015 (Unaudited) and December 31, 2014, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2015 and 2014, (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2015 and 2014, (iv) Condensed Consolidated Statement of Shareholders' Equity (Unaudited) for the nine months ended September 30, 2015, (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2015 and 2014, and (vi) the Notes to Interim Unaudited Condensed Consolidated Financial Statements |
| *                 | Filed herewith.  |
| **                | Included but not to be considered "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.  |