

PERFICIENT INC  
Form 10-Q  
November 03, 2011

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, 2011

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  
(State or other jurisdiction of  
incorporation or organization)

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

520 Maryville Centre Drive,  
Suite 400  
Saint Louis, Missouri 63141  
(Address of principal executive offices)  
(314) 529-3600

(Registrant's telephone number, including area code)

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

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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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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 31, 2011, there were 30,603,433 shares of Common Stock outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Perficient, Inc.  
Condensed Consolidated Balance Sheets  
(Unaudited)

	September 30, 2011	December 31, 2010
	(In thousands, except share information)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,959	\$ 12,707
Short-term investments	--	11,301
Total cash, cash equivalents, and short-term investments	1,959	24,008
Accounts receivable, net	62,626	48,496
Prepaid expenses	1,823	1,270
Other current assets	4,662	2,584
Total current assets	71,070	76,358
Long-term investments	--	2,254
Property and equipment, net	3,654	2,355
Goodwill	131,961	115,227
Intangible assets, net	11,818	8,829
Other non-current assets	2,926	2,655
Total assets	\$ 221,429	\$ 207,678
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 4,033	\$ 6,072
Other current liabilities	21,922	22,654
Total current liabilities	25,955	28,726
Other non-current liabilities	1,687	1,788
Total liabilities	\$ 27,642	\$ 30,514
Stockholders' equity:		
Common stock (par value \$.001 per share; 50,000,000 shares authorized and 35,347,645 shares issued and 28,250,078 shares outstanding as of September 30, 2011; 33,373,410 shares issued and 27,275,936 shares outstanding as of December 31, 2010)	\$ 35	\$ 33
Additional paid-in capital	243,155	224,966
Accumulated other comprehensive loss	(294)	(225)
Treasury stock, at cost (7,097,567 shares as of September 30, 2011; 6,097,474 shares as of December 31, 2010)	(51,730)	(42,205)
Retained earnings (deficit)	2,621	(5,405)

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Total stockholders' equity	193,787	177,164
Total liabilities and stockholders' equity	\$ 221,429	\$ 207,678

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
(In thousands, except per share data)				
Revenues				
Services	\$ 62,486	\$ 47,733	\$ 171,911	\$ 138,325
Software and hardware	3,868	4,395	10,618	13,620
Reimbursable expenses	3,820	2,520	9,477	7,078
Total revenues	70,174	54,648	192,006	159,023
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Project personnel costs	39,292	30,464	109,024	88,991
Software and hardware costs	3,425	3,810	9,223	12,017
Reimbursable expenses	3,820	2,520	9,477	7,078
Other project related expenses	1,320	1,403	4,454	4,115
Total cost of revenues	47,857	38,197	132,178	112,201
Gross margin	22,317	16,451	59,828	46,822
Selling, general and administrative	13,797	11,705	38,283	34,532
Depreciation	484	225	1,207	567
Amortization	1,984	975	4,663	2,989
Acquisition costs	1	--	1,231	406
Adjustment to fair value of contingent consideration	334	15	852	(15)
Income from operations	5,717	3,531	13,592	8,343
Net interest income (expense)	(1)	37	67	107
Net other income (expense)	13	31	(6)	27
Income before income taxes	5,729	3,599	13,653	8,477
Provision for income taxes	2,263	1,346	5,627	3,304
Net income	\$ 3,466	\$ 2,253	\$ 8,026	\$ 5,173
Basic net income per share	\$ 0.12	\$ 0.08	\$ 0.29	\$ 0.19
Diluted net income per share	\$ 0.12	\$ 0.08	\$ 0.28	\$ 0.18
Shares used in computing basic net income per share	27,744	26,594	27,679	26,932
Shares used in computing diluted net income per share	29,518	27,964	29,054	28,394

See accompanying notes to interim unaudited condensed consolidated financial statements.





Perficient, Inc.  
Condensed Consolidated Statement of Stockholders' Equity  
Nine Months Ended September 30, 2011  
(Unaudited)  
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance at December 31, 2010	27,276	\$ 33	\$ 224,966	\$ (225)	\$ (42,205)	\$ (5,405)	\$ 177,164
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	758	1	3,604	--	--	--	3,605
Net tax benefit from stock option exercises and restricted stock vesting	--	--	988	--	--	--	988
Stock compensation related to restricted stock vesting and retirement savings plan contributions	497	--	6,760	--	--	--	6,760
Purchases of treasury stock	(1,000)	--	--	--	(9,525)	--	(9,525)
Issuance of stock for acquisitions	719	1	6,837	--	--	--	6,838
Net unrealized loss on investments	--	--	--	(19)	--	--	(19)
Foreign currency translation adjustment	--	--	--	(50)	--	--	(50)
Net income	--	--	--	--	--	8,026	8,026
Total comprehensive income	--	--	--	--	--	--	7,957
Balance at September 30,	28,250	\$ 35	\$ 243,155	\$ (294)	\$ (51,730)	\$ 2,621	\$ 193,787

2011

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 September 30,	
	2011	2010
	(In thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 8,026	\$ 5,173
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,207	567
Amortization	4,663	2,989
Deferred income taxes	1,251	(160)
Non-cash stock compensation and retirement savings plan contributions	6,760	7,530
Tax benefit from stock option exercises and restricted stock vesting	(1,554)	(929)
Adjustment to fair value of contingent consideration	852	(15)
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(9,310)	(3,888)
Other assets	(2,379)	588
Accounts payable	(2,532)	616
Other liabilities	(5,111)	2,312
Net cash provided by operating activities	1,873	14,783
<b>INVESTING ACTIVITIES</b>		
Proceeds from sale and maturity of investments	13,555	--
Purchase of investments	--	(4,909)
Purchase of property and equipment	(2,393)	(816)
Capitalization of software developed for internal use	(111)	(124)
Purchase of businesses	(19,020)	(1,785)
Net cash used in investing activities	(7,969)	(7,634)
<b>FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	14,000	--
Payments on short-term borrowings	(14,000)	--
Payment of credit facility financing fees	(299)	--
Tax benefit on stock option exercises and restricted stock vesting	1,554	929
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	3,605	1,025
Purchase of treasury stock	(9,525)	(13,262)
Net cash used in financing activities	(4,665)	(11,308)
Effect of exchange rate on cash and cash equivalents	13	45
Change in cash and cash equivalents	(10,748)	(4,114)
Cash and cash equivalents at beginning of period	12,707	17,975
Cash and cash equivalents at end of period	\$ 1,959	\$ 13,861

Supplemental disclosures:

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Cash paid for income taxes	\$	5,691	\$	2,925
Non-cash activity:				
Stock issued for purchase of businesses	\$	6,838	\$	1,103
Estimated fair value of contingent consideration for purchase of business	\$	2,206	\$	2,631

See accompanying notes to interim unaudited condensed consolidated financial statements.

PERFICIENT, INC.  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2011

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Perficient, Inc. (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 ("SEC") applicable to interim financial information. Accordingly, certain footnote disclosures have been condensed or omitted. In the opinion of management, the unaudited interim 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, 2010. Operating results for the three and nine months ended September 30, 2011 may not be indicative of the results for the full fiscal year ending December 31, 2011.

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

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

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

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

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

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

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. In accordance with ASC Topic 350, Intangibles – Goodwill and Other (“ASC Topic 350”), the Company performs an annual impairment test of goodwill. The Company evaluates goodwill as of October 1 each year and more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by ASC Topic 350, the impairment test is accomplished using a two-step approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment.

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

#### Stock-Based Compensation

Stock-based compensation is accounted for in accordance with ASC Topic 718, Compensation – Stock Compensation (“ASC Topic 718”). Under this method, the Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to ASC Topic 718, the Company estimates the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur. Refer to Note 3, Stock-Based Compensation, for further discussion.

#### Fair Value of Financial Instruments

Cash equivalents, accounts receivable, accounts payable, other accrued liabilities, and debt are stated at amounts which approximate fair value due to the near term maturities of these instruments. Investments are stated at amounts

which approximate fair value based on quoted market prices or other observable inputs.

### 3. Stock-Based Compensation

#### Stock Award Plans

The Company made various stock option and award grants under the 1999 Stock Option/Stock Issuance Plan prior to May 2009. In April 2009, the Company's stockholders approved the 2009 Long-Term Incentive Plan (the "Incentive Plan"), which had been previously approved by the Company's Board of Directors. The Incentive Plan allows for the granting of various types of stock awards, not to exceed a total of 1.5 million shares, to eligible individuals. The Compensation Committee of the Board of Directors 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, 2011 was approximately \$2.4 million and \$6.8 million, respectively, which included \$0.3 million and \$0.8 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized for the three and nine months ended September 30, 2011 were approximately \$0.8 million and \$2.2 million, respectively. Stock-based compensation cost recognized for the three and nine months ended September 30, 2010 was approximately \$2.4 million and \$7.5 million, respectively, which included \$0.3 million and \$0.7 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized for the three and nine months ended September 30, 2010 were approximately \$0.8 million and \$2.6 million, respectively. As of September 30, 2011, there was \$13.9 million of total unrecognized compensation cost related to non-vested share-based awards. This cost is expected to be recognized over a weighted-average period of three years.

Stock option activity for the nine months ended September 30, 2011 was as follows (in thousands, except exercise price information):

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price
Options outstanding at January 1, 2011	1,199	\$ 0.03 – 9.19	\$ 4.56
Options exercised	(749)	0.03 – 9.19	4.70
Options canceled	(36)	3.75 – 7.48	5.93
Options outstanding at September 30, 2011	414	0.03 – 9.19	4.19
Options vested at September 30, 2011	386	\$ 0.03 – 9.19	\$ 4.03

Restricted stock activity for the nine months ended September 30, 2011 was as follows (in thousands, except fair value information):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2011	2,606	\$ 8.97
Awards granted (1)	365	11.65
Awards vested	(421)	9.33
Awards forfeited	(409)	8.84
Restricted stock awards outstanding at September 30, 2011	2,141	\$ 9.43

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

#### 4. Net Income per Share

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

Three Months Ended		Nine Months Ended	
September 30,		September 30,	
2011	2010	2011	2010

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Net income	\$	3,466	\$	2,253	\$	8,026	\$	5,173
Basic:								
Weighted-average shares of common stock outstanding		27,744		26,594		27,679		26,932
Shares used in computing basic net income per share		27,744		26,594		27,679		26,932
Effect of dilutive securities:								
Stock options		228		565		313		683
Warrants		6		6		7		6
Restricted stock subject to vesting		548		676		592		732
Contingently issuable shares (1)		467		123		156		41
Shares issuable for acquisition consideration (2)		525		--		307		--
Shares used in computing diluted net income per share (3)		29,518		27,964		29,054		28,394
Basic net income per share								
	\$	0.12	\$	0.08	\$	0.29	\$	0.19
Diluted net income per share								
	\$	0.12	\$	0.08	\$	0.28	\$	0.18

- (1) Represents the Company's estimate of shares to be issued to speakTECH pursuant to the Agreement and Plan of Merger. Refer to Note 8 for further discussion.
- (2) Represents the shares held in escrow pursuant to the Agreement and Plan of Merger with speakTECH and pursuant to the Asset Purchase Agreements with Exervio Consulting, Inc. ("Exervio") and JCB as part of the consideration. These shares were not included in the calculation of basic net income per share due to the uncertainty of their ultimate status.
- (3) For the three months ended September 30, 2011, approximately 10,000 options for shares and 509,000 shares of restricted stock were excluded. For the nine months ended September 30, 2011, approximately 3,000 options for shares and 316,000 shares of restricted stock were excluded. For the three months ended September 30, 2010, approximately 43,000 options for shares and 763,000 shares of restricted stock were excluded. For the nine months ended September 30, 2010, approximately 34,000 options for shares and 677,000 shares of restricted stock were excluded. These shares were excluded from shares used in computing diluted net income per share because they would have had an anti-dilutive effect.

## 5. Investments

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

During the second quarter 2011, the Company sold all of its short- and long-term investments to fund acquisition activity. The realized gains and losses for these investments were immaterial. As of September 30, 2011, the Company's investments consisted of cash equivalents with original maturities of less than three months.

## 6. 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, 2011 are as follows (in thousands):

	Operating Leases
2011 remaining	\$ 712
2012	2,194
2013	1,899
2014	1,330
2015	874
Thereafter	1,013
Total minimum lease payments	\$ 8,022

## 7. Balance Sheet Components

The components of accounts receivable are as follows (in thousands):

	September 30, 2011	December 31, 2010
Accounts receivable	\$ 41,540	\$ 33,406
Unbilled revenues	21,780	15,318

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Allowance for doubtful accounts	(694)	(228)
Total	\$ 62,626	\$ 48,496

The components of other current assets are as follows (in thousands):

	September 30, 2011	December 31, 2010
Income tax receivable	\$ 2,039	\$ 546
Deferred tax asset	156	656
Other current assets	2,467	1,382
Total	\$ 4,662	\$ 2,584

The components of other current liabilities are as follows (in thousands):

	September 30, 2011	December 31, 2010
Estimated fair value of contingent consideration liability (1)	\$ 6,101	\$ 3,339
Accrued variable compensation	5,160	8,456
Payroll related costs	2,674	1,986
Accrued subcontractor fees	2,386	2,631
Accrued reimbursable expense	1,608	441
Accrued medical claims expense	869	810
Deferred revenues	721	1,121
Acquired liabilities	730	2,244
Other current liabilities	1,673	1,626
Total	\$ 21,922	\$ 22,654

(1) Represents the fair value estimate of additional earnings-based contingent consideration that may be realized by: (1) speakTECH's interest holders 12 months after the speakTECH acquisition; and (2) Exervio's selling shareholders 12 months and 18 months after the closing date of the Exervio acquisition.

The components of other non-current liabilities are as follows (in thousands):

	September 30, 2011	December 31, 2010
Deferred compensation liability	\$ 1,229	\$ 1,162
Deferred income taxes	409	417
Other non-current liabilities	49	209
Total	\$ 1,687	\$ 1,788

Property and equipment consists of the following (in thousands):

	September 30, 2011	December 31, 2010
Computer hardware (useful life of 3 years)	\$ 5,988	\$ 5,064
Furniture and fixtures (useful life of 5 years)	1,396	1,287
Leasehold improvements (useful life of 5 years)	1,863	1,159
Software (useful life of 1 year)	1,489	1,160
Less: Accumulated depreciation	(7,082)	(6,315)
Total	\$ 3,654	\$ 2,355

## 8. Business Combinations

### Acquisition of speakTECH

On December 10, 2010, the Company acquired speakTECH pursuant to the terms of an Agreement and Plan of Merger. The Company has estimated total allocable purchase price consideration to be \$9.4 million. The purchase price estimate is comprised of \$4.3 million in cash paid (included \$0.9 million in assumed shareholder debt) and \$1.8 million of Company common stock, increased by \$3.3 million representing the fair value estimate of additional earnings-based contingent consideration that may be realized by speakTECH's interest holders 12 months after the

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closing date of the acquisition. The first 40% of the earnings-based contingent consideration is to be paid in Company common stock while the remaining 60% is to be paid equally in cash and stock. The contingent consideration is recorded in "Other current liabilities" on the Condensed Consolidated Balance Sheet as of September 30, 2011. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred. The results of the speakTECH operations have been included in the Company's unaudited interim condensed consolidated financial statements since the acquisition date.

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

Acquired tangible assets	\$	5.0
Acquired intangible assets		3.2
Liabilities assumed		(7.2)
Goodwill		8.4
Total purchase price	\$	9.4

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

The Company made immaterial adjustments to the fair value estimates of speakTECH related to net working capital amounts and deferred taxes to reflect new information obtained as of September 30, 2011. Any additional adjustments to these fair value estimates will result in an adjustment to goodwill or income, as applicable, and are expected to be immaterial as the Company finalizes its fair value estimates during the fourth quarter 2011.

#### Acquisition of Exervio

On April 1, 2011, the Company acquired substantially all of the assets of Exervio pursuant to the terms of an Asset Purchase Agreement. The Company has initially estimated the total allocable purchase price consideration to be \$11.2 million. The initial purchase price estimate is comprised of \$6.5 million in cash paid and \$2.8 million of Company common stock issued at closing, increased by \$1.9 million representing the initial fair value estimate of additional earnings-based contingent consideration, which may be partially realized by the Exervio selling shareholders 12 months after the closing date of the acquisition, and the remainder potentially realized 18 months after the closing date of the acquisition. If the contingency is achieved, 25% of the earnings-based contingent consideration will be paid in cash and 75% will be issued in stock to the Exervio selling shareholders. The contingent consideration is recorded in "Other current liabilities" on the Condensed Consolidated Balance Sheet as of September 30, 2011. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$	2.2
Acquired intangible assets		4.5
Liabilities assumed		(1.1)
Goodwill		5.6
Total purchase price	\$	11.2

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

The amounts above represent the fair value estimates as of September 30, 2011 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

#### Acquisition of JCB

On July 1, 2011, the Company acquired substantially all of the assets of JCB pursuant to the terms of an Asset Purchase Agreement. The Company has initially estimated the total allocable purchase price consideration to be \$16.4 million. The initial purchase price estimate is comprised of \$12.3 million in cash paid and \$4.1 million of Company common stock issued at closing. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$	2.8
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Acquired intangible assets	3.1
Liabilities assumed	(1.3)
Goodwill	11.8
Total purchase price	\$ 16.4

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

The amounts above represent the fair value estimates as of September 30, 2011 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

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



The amounts of revenue and net income of Exervio and JCB included in the Company's Condensed Consolidated Statements of Operations from the acquisition date to September 30, 2011 are as follows (in thousands):

	Acquisition Date to September 30, 2011
Revenues	\$ 12,493
Net income	\$ 636

#### Pro-forma Results of Operations (Unaudited)

The following presents the unaudited pro-forma combined results of operations of the Company with Exervio and JCB for the nine months ended September 30, 2011 and 2010, after giving effect to certain pro-forma adjustments related to the amortization of acquired intangible assets and assuming Exervio and JCB were acquired as of the beginning of 2010. These unaudited pro-forma results are presented in compliance with the adoption of Accounting Standards Update ("ASU") 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations, and are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2010 or of future results of operations of the consolidated entities (in thousands, except per share information):

	September 30,	
	2011	2010
Revenues	\$204,163	\$177,357
Net income	\$9,847	\$4,386
Basic Earnings Per Share	\$0.36	\$0.16
Diluted Earnings Per Share	\$0.34	\$0.15
Basic Weighted Average Shares Outstanding	27,681	27,257
Diluted Weighted Average Shares Outstanding	29,055	29,113

The September 30, 2010 pro-forma results shown above include the results of the Kerdock Consulting, LLC operations since the acquisition date.

#### 9. Goodwill and Intangible Assets

##### Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2011 are as follows (in thousands):

Balance at December 31, 2010	\$ 115,227
Preliminary purchase price allocation for 2011 acquisitions (Note 8)	17,386
Adjustments to preliminary purchase price allocations	(652)
Balance at September 30, 2011	\$ 131,961

##### Intangible Assets with Definite Lives

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

	September 30, 2011			December 31, 2010		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer relationships	\$ 20,808	\$ (10,862)	\$ 9,946	\$ 19,543	\$ (12,169)	\$ 7,374
Non-compete agreements	1,076	(250)	826	1,031	(413)	618
Customer backlog	992	(622)	370	151	(100)	51
Trade name	259	(140)	119	169	(25)	144
Internally developed software	1,018	(461)	557	1,039	(397)	642
Total	\$ 24,153	\$ (12,335)	\$ 11,818	\$ 21,933	\$ (13,104)	\$ 8,829

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

Customer relationships	4 – 8 years
Non-compete agreements	3 – 5 years
Internally developed software	3 – 5 years
Trade name	9 months – 3 years
Customer backlog	6 – 9 months

#### 10. Line of Credit

On May 23, 2011, the Company renewed and extended the term of its Credit Agreement (the “Credit Agreement”) with Silicon Valley Bank (“SVB”), U.S. Bank National Association, and Bank of America, N.A. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$50.0 million, subject to a commitment increase of \$25.0 million. The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to \$500,000 at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. Substantially all of the Company’s assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015. Borrowings under the credit facility bear interest at the Company’s option of SVB’s prime rate (4.00% on September 30, 2011) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.24% on September 30, 2011) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of September 30, 2011, the Company had \$50.0 million of maximum borrowing capacity. An annual commitment fee of 0.30% is incurred on the unused portion of the line of credit.

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

#### 11. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Internal Revenue Service (“IRS”) has completed examinations of the Company’s U.S. income tax returns or the statute has passed on years through 2006. The IRS has completed its examination of the Company’s 2009 income tax return and the proposed adjustments to the Company’s tax positions were not material.

Under the provisions of the ASC Subtopic 740-10-25, Income Taxes - Recognition, the Company had no unrecognized tax benefits as of September 30, 2011.

The Company’s effective tax rate was 39.5% and 41.2% for the respective three and nine months ended September 30, 2011 compared to 37.4% and 39.0% for the respective three and nine months ended September 30, 2010. The increase in the effective rate is primarily due to lower projected foreign-source income and non-deductible adjustments related to the fair value of contingent consideration. The difference between the Company’s federal statutory rate of 35% and

effective tax rate relates primarily to state income taxes, net of the federal benefit, and permanent non-deductible items such as 50% of meals and entertainment expenses, present value adjustment to acquisition-related contingent consideration, and non-deductible executive compensation, partially offset by the tax benefits of certain disqualified dispositions of incentive stock options by holders. As of September 30, 2011, the Company's net current deferred tax asset was \$0.2 million and its net non-current deferred tax liability was \$0.4 million. Generally, deferred tax assets are related to stock compensation, accruals, and net operating losses of acquired companies; and deferred tax liabilities are related to identifiable intangibles 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 Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010.

## 12. Recent Accounting Pronouncements

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

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

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

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

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

Statements made in this Quarterly Report on 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. These forward-looking statements may sometimes be identified by such words as “may,” “will,” “expect,” “anticipate,” “believe,” “estimate” and “continue” or similar words. We b

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 Securities and Exchange Commission (“SEC”) and elsewhere in this Quarterly Report on Form 10-Q. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

#### 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 10% and 12% of our services revenues for the respective three and nine months ended September 30, 2011 compared to 12% and 13% for the respective three and nine months ended September 30, 2010. For time and material projects, revenues are recognized and billed by multiplying the number of hours our professionals expend in the performance of the project by the established billing rates. For fixed fee projects, revenues are generally recognized using an input method based on the ratio of hours expended to total estimated hours. Amounts invoiced and collected in excess of revenues recognized are classified as deferred revenues. On most projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging, and meals. These reimbursements are included as a component of revenues. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our clients, the total number of our projects that require travel, and whether our arrangements with our clients provide for the reimbursement of travel and other project related expenses.

### Software and Hardware Revenues

Software and hardware revenues are derived from sales of third-party software and hardware. Revenues from sales of third-party software and hardware are generally recorded on a gross basis provided we act as a principal in the transaction. On rare occasions, we do not meet the requirements to be considered a principal in the transaction and act as an agent. In these cases, revenues are recorded on a net basis. Software and hardware revenues are expected to fluctuate depending on our clients' demand for these products.

If we enter into contracts for the sale of services and software or hardware, management evaluates whether each element should be accounted for separately. Management considers 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). If management 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 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, 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.

### Cost of revenues

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

## Gross Margins

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

## Selling, General, and Administrative Expenses

Selling, general and administrative expenses ("SG&A") are primarily composed of sales related costs, general and administrative salaries, variable compensation costs, office costs, stock compensation expense, bad debts, 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 in North America 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 the United States, both organically and through acquisitions. Given the economic conditions during 2008 and 2009 we suspended acquisition activity pending improved visibility into the health of the economy. With the return to growth in 2010 we have resumed our disciplined acquisition strategy as evidenced by our acquisition of Kerdock Consulting, LLC (“Kerdock”) in March 2010, speakTECH in December 2010, Exervio Consulting, Inc. (“Exervio”) in April 2011, and JCB Partners, LLC (“JCB”) in July 2011. We also intend to further leverage our existing offshore capabilities to support our future growth and provide our clients flexible options for project delivery.

## Results of Operations

Three months ended September 30, 2011 compared to three months ended September 30, 2010

Revenues. Total revenues increased 28% to \$70.2 million for the three months ended September 30, 2011 from \$54.6 million for the three months ended September 30, 2010.

	Financial Results (in thousands)			Explanation for Increases/ (Decreases) Over Prior Year Period (in thousands)	
	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	Total Increase/ (Decrease) Over Prior Year Period	Increase/ (Decrease) Attributable to Acquired Companies*	Increase/(Decrease) Attributable to Base Business**
Services Revenues	\$ 62,486	\$ 47,733	\$ 14,753	\$ 11,920	\$ 2,833
Software and Hardware Revenues	3,868	4,395	(527)	(442)	(85)
Reimbursable Expenses	3,820	2,520	1,300	300	1,000
Total Revenues	\$ 70,174	\$ 54,648	\$ 15,526	\$ 11,778	\$ 3,748

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

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

Services revenues increased 31% to \$62.5 million for the three months ended September 30, 2011 from \$47.7 million for the three months ended September 30, 2010. The increase in services revenues is primarily due to acquisitions during 2010 and 2011. Services revenues attributable to our base business increased \$2.8 million while services revenues attributable to acquired companies increased \$11.9 million, resulting in a total increase of \$14.7 million.

Software and hardware revenues decreased 12% to \$3.9 million for the three months ended September 30, 2011 from \$4.4 million for the three months ended September 30, 2010 primarily due to the volume and magnitude of software renewals in the third quarter 2010 as compared to the third quarter 2011. Reimbursable expenses increased 52% to \$3.8 million for the three months ended September 30, 2011 from \$2.5 million for the three months ended September 30, 2010 as a result of the increase in services revenue. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 25% to \$47.9 million for the three months ended September 30, 2011 from \$38.2 million for the three months ended September 30, 2010. The increase in cost of revenues is primarily related to the increase in headcount to support the Company's ongoing revenue producing projects. The average number of professionals performing services, including subcontractors, increased to 1,379 for the three months ended September 30, 2011 from 1,084 for the three months ended September 30, 2010.

**Gross Margin.** Gross margin increased 36% to \$22.3 million for the three months ended September 30, 2011 from \$16.5 million for the three months ended September 30, 2010. Gross margin as a percentage of revenues increased to 31.8% for the three months ended September 30, 2011 from 30.1% for the three months ended September 30, 2010 primarily due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 35.0% or \$21.9 million for the three months ended September 30, 2011 from 33.2% or \$15.9 million for the three months ended September 30, 2010. The increase in services gross margin is primarily a result of a higher average bill rate. The average bill rate for our professionals, excluding subcontractors, increased to \$116 per hour for the three months ended September 30, 2011 from \$105 per hour for the three months ended September 30, 2010, primarily due to the improved pricing opportunities as the market for our services continues to improve. The average bill rate for the three months ended September 30, 2011, excluding China, was \$126 per hour compared to \$119 per hour for the three months ended September 30, 2010.

**Selling, General and Administrative.** SG&A expenses increased 18% to \$13.8 million for the three months ended September 30, 2011 from \$11.7 million for the three months ended September 30, 2010. SG&A expenses, as a percentage of revenues, decreased to 19.7% for the three months ended September 30, 2011 from 21.4% for the three months ended September 30, 2010. Bonus and stock compensation decreased 1.8% and 0.9%, respectively, as a percentage of revenues while sales-related costs increased 0.8% as a percentage of revenues compared to the prior year comparable period. Bonus decreased as a percentage of revenues primarily due to more aggressive bonus targets in 2011. Sales-related costs increased as a percentage of revenues primarily due to the increase in headcount to support our ongoing revenue producing projects.

**Depreciation.** Depreciation expense increased 115% to \$0.5 million for the three months ended September 30, 2011 from \$0.2 million for the three months ended September 30, 2010. The increase in depreciation expense is mainly attributable to increased capital expenditures during 2010 and 2011 and the increase in leasehold improvements related to the expansion of our facility in China. Depreciation expense as a percentage of revenues was 0.7% and 0.4% for the three months ended September 30, 2011 and 2010, respectively.

**Amortization.** Amortization expense increased 104% to \$2.0 million for the three months ended September 30, 2011 from \$1.0 million for the three months ended September 30, 2010. The increase in amortization expense is due to the addition of intangible assets acquired as a result of the Company's acquisition activity during 2010 and 2011.

**Adjustment to Fair Value of Contingent Consideration.** An adjustment of \$0.3 million was made during the three months ended September 30, 2011 for the accretion of the fair value estimate for the earnings-based contingent consideration to be paid to speakTECH's interest holders and Exervio's selling shareholders.

**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 increased to 39.5% for the three months ended September 30, 2011 from 37.4% for the three months ended September 30, 2010 primarily due to lower projected foreign-source income and non-deductible adjustments related to the fair value of contingent consideration paid in some of our recent acquisitions.

Nine months ended September 30, 2011 compared to nine months ended September 30, 2010

**Revenues.** Total revenues increased 21% to \$192.0 million for the nine months ended September 30, 2011 from \$159.0 million for the nine months ended September 30, 2010.

Financial Results	Explanation for Increases/ (Decreases) Over Prior Year Period
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	(in thousands)			(in thousands)	
	For the Nine	For the Nine	Total	Increase/	
	Months	Months	Increase/Increase/(Decrease)	(Decrease)	
	Ended	Ended	(Decrease)	Attributable	Attributable
	September	September	Over Prior	to Acquired	to Base
	30, 2011	30, 2010	Year Period	Companies*	Business**
Services Revenues	\$ 171,911	\$ 138,325	\$ 33,586	\$ 28,631	\$ 4,955
Software and Hardware Revenues	10,618	13,620	(3,002 )	(560 )	(2,442 )
Reimbursable Expenses	9,477	7,078	2,399	581	1,818
Total Revenues	\$ 192,006	\$ 159,023	\$ 32,983	\$ 28,652	\$ 4,331

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

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

Services revenues increased 24% to \$171.9 million for the nine months ended September 30, 2011 from \$138.3 million for the nine months ended September 30, 2010. The increase in services revenues is primarily due to the acquisitions during 2010 and 2011. Services revenues attributable to our base business increased \$5.0 million while services revenues attributable to acquired companies increased \$28.6 million, resulting in a total increase of \$33.6 million.

Software and hardware revenues decreased 22% to \$10.6 million for the nine months ended September 30, 2011 from \$13.6 million for the nine months ended September 30, 2010 due to the decrease in the volume and magnitude of software renewals as compared to 2010. Reimbursable expenses increased 34% to \$9.5 million for the nine months ended September 30, 2011 from \$7.1 million for the nine months ended September 30, 2010. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 18% to \$132.2 million for the nine months ended September 30, 2011 from \$112.2 million for the nine months ended September 30, 2010. The increase in cost of revenues is related to the increase in headcount to support the Company's ongoing revenue producing projects. The average number of professionals performing services, including subcontractors, increased to 1,258 for the nine months ended September 30, 2011 from 1,053 for the nine months ended September 30, 2010.

Gross Margin. Gross margin increased 28% to \$59.8 million for the nine months ended September 30, 2011 from \$46.8 million for the nine months ended September 30, 2010. Gross margin as a percentage of revenues increased to 31.2% for the nine months ended September 30, 2011 from 29.4% for the nine months ended September 30, 2010, primarily due to increases in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 34.0% or \$58.4 million for the nine months ended September 30, 2011 from 32.7% or \$45.2 million for the nine months ended September 30, 2010. The increase in services gross margin is primarily a result of higher average bill rates. The average bill rate for our professionals, excluding subcontractors, increased to \$116 per hour for the nine months ended September 30, 2011 from \$105 per hour for the nine months ended September 30, 2010, primarily due to the improved pricing opportunities as the market for our services continues to improve. The average bill rate for the nine months ended September 30, 2011, excluding China, was \$125 per hour compared to \$118 per hour for the nine months ended September 30, 2010.

Selling, General and Administrative. SG&A expenses increased 11% to \$38.3 million for the nine months ended September 30, 2011 from \$34.5 million for the nine months ended September 30, 2010. SG&A expenses, as a percentage of revenues, decreased to 19.9% for the nine months ended September 30, 2011 from 21.7% for the nine months ended September 30, 2010. Stock compensation and bonus decreased 1.0% and 1.2%, respectively, as a percentage of revenues while recruiting costs increased 0.5% as a percentage of revenues compared to the prior year comparable period. Stock compensation decreased as a percentage of revenues primarily due to less expense recorded in 2011 as a result of the separation of our former chairman of the Board of Directors in the fourth quarter 2010. Bonus decreased as a percentage of revenues primarily due to more aggressive bonus targets in 2011. Recruiting costs increased as a percentage of revenues primarily related to the increase in headcount.

Depreciation. Depreciation expense increased 113% to \$1.2 million for the nine months ended September 30, 2011 from \$0.6 million for the nine months ended September 30, 2010. The increase in depreciation expense is mainly attributable to increased capital expenditures during 2010 and 2011 and the increase in leasehold improvements related to the expansion of our facility in China. Depreciation expense as a percentage of revenues was 0.6% and 0.4% for the nine months ended September 30, 2011 and 2010, respectively.

Amortization. Amortization expense increased 56% to \$4.7 million for the nine months ended September 30, 2011 from \$3.0 million for the nine months ended September 30, 2010. The increase in amortization expense is due to the

addition of intangible assets acquired as a result of the Company's acquisition activity during 2010 and 2011.

**Acquisition Costs.** Acquisition-related costs of \$1.2 million for the nine months ended September 30, 2011 were incurred primarily related to the acquisition of Exervio and JCB. Acquisition-related costs were incurred for legal, accounting, and valuation services performed by third parties.

**Adjustment to Fair Value of Contingent Consideration.** An adjustment of \$0.8 million was made during the nine months ended September 30, 2011 for the accretion of the fair value estimate for the earnings-based contingent consideration to be paid to speakTECH's interest holders and Exervio's selling shareholders.

**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 increased to 41.2% for the nine months ended September 30, 2011 from 39.0% for the nine months ended September 30, 2010 primarily due to lower projected foreign-source income and non-deductible adjustments related to the fair value of contingent consideration paid in some of our recent acquisitions.

## Liquidity and Capital Resources

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

	As of September 30, 2011	As of December 31, 2010
Cash, cash equivalents and investments	\$ 2.0	\$ 26.3
Working capital (including cash and cash equivalents)	\$ 45.1	\$ 47.6
Amounts available under credit facilities	\$ 50.0	\$ 50.0

## Net Cash Provided By Operating Activities

Net cash provided by operating activities was \$1.9 million compared to \$14.8 million for the nine months ended September 30, 2011 and 2010, respectively. For the nine months ended September 30, 2011, the primary components of operating cash flows were net income of \$8.0 million plus non-cash charges of \$13.2 million, offset by investments in working capital of \$19.3 million. The primary components of operating cash flows for the nine months ended September 30, 2010 were net income of \$5.2 million plus non-cash charges of \$10.0 million, offset by investments in net working capital of \$0.4 million. The decrease in cash resulting from operating activities is primarily related to the decrease in accounts payable and other liabilities. Accounts payable and other liabilities decreased due to paying down higher accrued software costs and variable compensation liabilities during 2011. Also, our days sales outstanding as of September 30, 2011 increased to 81 days from 73 days at September 30, 2010. Days sales outstanding have increased as of September 30, 2011 due to slightly slower paying customers, partially related to new customers both from existing lines of business and acquisitions made during 2010 and 2011.

## Net Cash Used In Investing Activities

During the nine months ended September 30, 2011, we used \$19.0 million for the purchase of businesses and acquisition-related costs and \$2.5 million primarily on leasehold improvements and to develop certain software, offset by \$13.6 million in proceeds from the sale and maturity of our investments. During the nine months ended September 30, 2010, we used \$4.9 million to purchase investments, \$1.8 million for the purchase of Kerdock and \$0.9 million to purchase equipment and develop certain software.

## Net Cash Used In Financing Activities

During the nine months ended September 30, 2011, we received proceeds of \$3.6 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized a tax benefit of \$1.6 million related to vesting of stock awards and stock option exercises. We used \$9.5 million to repurchase shares of our common stock through the stock repurchase program and \$0.3 million in fees related to renewing our credit facility. For the nine months ended September 30, 2010, we received proceeds of \$1.0 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized a tax benefit of \$0.9 million related to vesting of stock awards and stock option exercises. We used \$13.2 million to repurchase shares of our common stock through the stock repurchase program.

## Availability of Funds from Bank Line of Credit Facility

On May 23, 2011, the Company renewed and extended the term of its Credit Agreement (the "Credit Agreement") with Silicon Valley Bank ("SVB"), U.S. Bank National Association, and Bank of America, N.A. The Credit Agreement

provides for revolving credit borrowings up to a maximum principal amount of \$50.0 million, subject to a commitment increase of \$25.0 million. The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to \$500,000 at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. Substantially all of our assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015. Borrowings under the credit facility bear interest at our option of SVB's prime rate (4.00% on September 30, 2011) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.24% on September 30, 2011) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of September 30, 2011, we had \$50.0 million of maximum borrowing capacity. We incur an annual commitment fee of 0.30% on the unused portion of the line of credit.

As of September 30, 2011, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months.



### Stock Repurchase Program

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

We established a written trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934 (the "Exchange Act"), under which we made a portion of our stock repurchases. Additional repurchases will be at times and in amounts as the Company deems appropriate and will be made through open market transactions in compliance with Rule 10b-18 of the Exchange Act, subject to market conditions, applicable legal requirements, and other factors.

Since the program's inception on August 11, 2008, we have repurchased approximately \$51.7 million of our outstanding common stock through September 30, 2011.

### Lease Obligations

There were no material changes outside the ordinary course of our business in lease obligations or other contractual obligations in the first nine months of 2011.

### Shelf Registration Statement

In July 2008, we filed a shelf registration statement with the SEC to allow for offers and sales of our common stock from time to time. Approximately four million shares of common stock were eligible to be sold under this registration statement. The shelf registration expired in July 2011.

### Conclusion

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

### Critical Accounting Policies

Our accounting policies are fully described in Note 2, Summary of Significant Accounting Policies, to our Consolidated Financial Statements in our 2010 Annual Report on Form 10-K. We believe our most critical accounting policies include revenue recognition, accounting for goodwill and intangible assets, purchase accounting, accounting for stock-based compensation, and income taxes.

### 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, 2011, we were exposed to changes in exchange rates between the U.S. dollar and the Canadian dollar, between the U.S. dollar and the Chinese Yuan, and between the U.S. dollar and the Indian Rupee. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars because our exposure to foreign currency risk is not significant.

Interest Rate Sensitivity

We had unrestricted cash, cash equivalents, and investments totaling \$2.0 million at September 30, 2011 and \$26.3 million at December 31, 2010. In 2011, these amounts were invested primarily in money market funds. 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 investment income.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure 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 report. 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, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## 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, 2010, as filed with the SEC on March 3, 2011 and available at [www.sec.gov](http://www.sec.gov). There have been no material changes to these risk factors since the filing of our Form 10-K.

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

##### Unregistered Sales of Securities

On July 1, 2011, we acquired JCB Partners, LLC ("JCB"). As part of the initial purchase price paid in this acquisition, we issued unregistered shares of our common stock to the interest holders of JCB. The aggregate initial purchase price paid in this transaction was approximately \$16.4 million, which consisted of approximately \$12.3 million in cash and 430,318 unregistered shares of our common stock. We relied on Section 4(2) of the Securities Act of 1933, as amended, as the basis for exemption from registration. These shares were issued to JCB's interest holders in a privately negotiated transaction and not pursuant to a public solicitation.

##### Issuer Purchases of Securities

Prior to 2011, our Board of Directors authorized the repurchase of up to \$50.0 million of our common stock. In 2011, the Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$60.0 million at September 30, 2011. The repurchase program expires June 30, 2012. 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 \$51.7 million of our outstanding common stock through September 30, 2011.

Period	Total Number of Shares Purchased	Average Price Paid Per Share (1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
Beginning Balance as of June 30, 2011	6,597,567	\$ 7.28	6,597,567	\$ 11,983,213
July 1-31, 2011	--	--	--	11,983,213
August 1-31, 2011	500,000	7.42	500,000	8,271,213
September 1-30, 2011	--	--	--	8,271,213
Ending Balance as of September 30, 2011	7,097,567	7.29	7,097,567	8,271,213

(1) Average price paid per share includes commission.

#### Item 5. Other Information

At a meeting held November 1, 2011, the Board of Directors appointed current director James R. Kackley to serve as the Company's non-executive Chairman of the Board.

#### 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 3, 2011

By:

/s/ Jeffrey S. Davis

Jeffrey S. Davis

Chief Executive Officer (Principal Executive Officer)

Date: November 3, 2011

By:

/s/ Paul E. Martin

Paul E. Martin

Chief Financial Officer (Principal Financial Officer)

EXHIBITS INDEX

Exhibit Number	Description
3.1	Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
3.2	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Form 8-A (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	Bylaws of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our current Report on Form 8-K (File No. 001-15169) filed November 9, 2007 and incorporated herein by reference
4.1	Specimen Certificate for shares of Perficient, Inc. common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our Quarterly Report on Form 10-Q (File No. 001-15169) filed May 7, 2009 and incorporated herein by reference
4.2	Form of Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K (File No. 001-15169) filed on January 17, 2002 and incorporated herein by reference
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
*	Filed herewith.
**	Included but not to be considered “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

