

PERFICIENT INC
Form 10-Q
November 07, 2013
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, 2013

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 (I.R.S. Employer Identification No.)
incorporation or organization)

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

Edgar Filing: PERFICIENT INC - Form 10-Q

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

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 November 4, 2013, there were 33,029,609 shares of Common Stock outstanding.

TABLE OF CONTENTS

Part I. Financial Information	1
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012	2
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012	3
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2013 and 2012	4
Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2013	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012	6
Notes to Interim Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures	21
Part II. Other Information	22
Item 1A. Risk Factors	22
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 5. Other Information	22
Item 6. Exhibits	22
Signatures	23

PART I. FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Quarterly Report on Form 10-Q ("Form 10-Q") that are not purely historical statements discuss future expectations, contain projections of results of operations or financial condition, or state other forward-looking information. Those statements are subject to known and unknown risks, uncertainties, and other factors that could cause the actual results to differ materially from those contemplated by the statements. The "forward-looking" information is based on various factors and was derived using numerous assumptions. In some cases, you can identify these so-called forward-looking statements by words like "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of those words and other comparable words. You should be aware that those statements only reflect our predictions and are subject to risks and uncertainties. Actual events or results may differ substantially. Important factors that could cause our actual results to be materially different from the forward-looking statements include (but are not limited to) the following:

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

This discussion is not exhaustive, but is designed to highlight important factors that may impact our forward-looking statements. Because the factors referred to above, as well as the statements included under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012 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 quarterly report to conform such statements to actual results.

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

Item 1. Financial Statements

Perficient, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2013	December 31, 2012
	(In thousands, except share and per share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$5,439	\$5,813
Accounts receivable, net	83,435	69,662
Prepaid expenses	2,146	1,649
Other current assets	4,695	3,717
Total current assets	95,715	80,841
Property and equipment, net	8,251	4,398
Goodwill	175,162	160,936
Intangible assets, net	21,326	17,350
Other non-current assets	3,664	3,669
Total assets	\$304,118	\$267,194
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$6,205	\$7,959
Other current liabilities	26,228	20,605
Total current liabilities	32,433	28,564
Long-term debt	16,000	2,800
Other non-current liabilities	5,094	1,417
Total liabilities	\$53,527	\$32,781
Stockholders' equity:		
Common stock (par value \$0.001 per share; 50,000,000 shares authorized; 40,231,099 shares issued and 30,870,552 shares outstanding as of September 30, 2013; 39,024,337 shares issued and 30,825,123 shares outstanding as of December 31, 2012)	\$40	\$39
Additional paid-in capital	291,574	276,201
Accumulated other comprehensive loss	(339)	(306)
Treasury stock, at cost (9,360,547 shares as of September 30, 2013; 8,199,214 shares as of December 31, 2012)	(78,052)	(62,970)
Retained earnings	37,368	21,449
Total stockholders' equity	250,591	234,413
Total liabilities and stockholders' equity	\$304,118	\$267,194

See accompanying notes to interim unaudited condensed consolidated financial statements.

Edgar Filing: PERFICIENT INC - Form 10-Q

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In thousands, except per share information)			
Revenues				
Services	\$86,568	\$75,948	\$240,549	\$214,793
Software and hardware	5,620	7,450	23,169	17,122
Reimbursable expenses	4,570	4,076	12,142	12,053
Total revenues	96,758	87,474	275,860	243,968
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Project personnel costs	52,154	47,843	149,998	136,742
Software and hardware costs	4,919	6,301	20,471	14,554
Reimbursable expenses	4,570	4,076	12,142	12,053
Other project related expenses	1,252	1,027	3,274	2,988
Total cost of revenues	62,895	59,247	185,885	166,337
Gross margin	33,863	28,227	89,975	77,631
Selling, general and administrative	20,532	17,714	57,254	49,065
Depreciation	932	612	2,334	1,590
Amortization	1,955	2,258	5,750	5,664
Acquisition costs	29	9	1,443	1,831
Adjustment to fair value of contingent consideration	69	97	102	435
Income from operations	10,346	7,537	23,092	19,046
Net interest expense	(96)	(93)	(154)	(131)
Net other income (expense)	7	5	(30)	49
Income before income taxes	10,257	7,449	22,908	18,964
Provision for income taxes	3,023	2,307	6,989	7,233
Net income	\$7,234	\$5,142	\$15,919	\$11,731
Basic net income per share	\$0.24	\$0.17	\$0.53	\$0.40
Diluted net income per share	\$0.23	\$0.16	\$0.50	\$0.38
Shares used in computing basic net income per share	30,141	30,021	30,287	29,273
Shares used in computing diluted net income per share	31,808	31,674	31,692	30,844

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30, 2013 2012 (In thousands)		Nine Months Ended September 30, 2013 2012 (In thousands)	
Net income	\$7,234	\$5,142	\$15,919	\$11,731
Other comprehensive income, net of reclassification adjustments:				
Foreign currency translation adjustment	21	49	(33)	9
Comprehensive income	\$7,255	\$5,191	\$15,886	\$11,740

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Condensed Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2013
(Unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2012	30,825	\$ 39	\$276,201	\$ (306)	\$(62,970)	\$21,449	\$ 234,413
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	43	--	180	--	--	--	180
Net tax benefit from stock option exercises and restricted stock vesting	--	--	1,666	--	--	--	1,666
Stock compensation related to restricted stock vesting and retirement savings plan contributions	535	--	8,158	--	--	--	8,158
Purchase of treasury stock and buyback of shares for taxes	(1,161)	--	--	--	(15,082)	--	(15,082)
Issuance of stock for acquisitions	628	1	5,369	--	--	--	5,370
Net income	--	--	--	--	--	15,919	15,919
Foreign currency translation adjustment	--	--	--	(33)	--	--	(33)
Balance at September 30, 2013	30,870	\$ 40	\$291,574	\$ (339)	\$(78,052)	\$37,368	\$ 250,591

See accompanying notes to interim unaudited condensed consolidated financial statements.

Edgar Filing: PERFICIENT INC - Form 10-Q

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

	Nine Months Ended September 30,	
	2013	2012
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$15,919	\$11,731
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	2,334	1,590
Amortization	5,750	5,664
Deferred income taxes	918	243
Non-cash stock compensation and retirement savings plan contributions	8,158	6,995
Tax benefit from stock option exercises and restricted stock vesting	(1,698)	(781)
Adjustment to fair value of contingent consideration for purchase of business	102	435
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(5,351)	(9,161)
Other assets	1,532	1,510
Accounts payable	(1,875)	1,768
Other liabilities	(34)	855
Net cash provided by operating activities	25,755	20,849
INVESTING ACTIVITIES		
Purchase of property and equipment	(4,282)	(1,391)
Capitalization of software developed for internal use	(1,749)	(107)
Purchase of business and related costs, net of cash acquired	(19,779)	(36,412)
Net cash used in investing activities	(25,810)	(37,910)
FINANCING ACTIVITIES		
Proceeds from line of credit	128,150	116,100
Payments on line of credit	(114,950)	(104,600)
Payments for credit facility fees	(397)	-
Payment of contingent consideration for purchase of business	-	(425)
Tax benefit on stock option exercises and restricted stock vesting	1,698	781
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	180	134
Purchase of treasury stock	(13,116)	(605)
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(1,966)	(582)
Net cash provided by (used in) financing activities	(401)	10,803
Effect of exchange rate on cash and cash equivalents	82	7
Change in cash and cash equivalents	(374)	(6,251)
Cash and cash equivalents at beginning of period	5,813	9,732
Cash and cash equivalents at end of period	\$5,439	\$3,481
Supplemental disclosures:		
Cash paid for income taxes	\$5,040	\$6,071

Edgar Filing: PERFICIENT INC - Form 10-Q

Cash paid for interest	\$163	\$-
Non-cash activity:		
Stock issued for purchase of business	\$5,370	\$15,572
Estimated fair value of contingent consideration for purchase of business	\$1,534	\$1,474
Accrued additions to property and equipment	\$1,488	\$-

See accompanying notes to interim unaudited condensed consolidated financial statements.

6

PERFICIENT, INC.

NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2013

1. Basis of Presentation

The accompanying interim unaudited 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 (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, 2012. Operating results for the three and nine months ended September 30, 2013 may not be indicative of the results for the full fiscal year ending December 31, 2013.

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.

Reclassification

The Company has reclassified the presentation of certain prior period information to conform to the current year presentation.

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.

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 method, the Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to ASC Topic 718, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur.

Stock Award Plans

The Company made various award grants under the 2009 Long-Term Incentive Plan prior to May 2012. In May 2012, the Company's stockholders approved the 2012 Long-Term Incentive Plan (the "Incentive Plan"), which had been previously approved by the Company's Board of Directors. The Incentive Plan allows for the granting of various types of stock awards, not to exceed a total of 2.5 million shares, to eligible individuals. The Compensation Committee of the Board of Directors administers the Incentive Plan and determines the terms of all stock awards made under the Incentive Plan.

Stock-based compensation cost recognized for the three and nine months ended September 30, 2013 was approximately \$2.8 million and \$8.2 million, respectively, which included \$0.4 and \$1.2 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.0 million and \$2.7 million for the three and nine months ended September 30, 2013, respectively.

Stock-based compensation cost recognized for the three and nine months ended September 30, 2012 was approximately \$2.5 million and \$7.0 million, respectively, which included \$0.4 and \$1.1 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$0.8 million and \$2.3 million for the three and nine months ended September 30, 2012, respectively. As of September 30, 2013, there was \$12.9 million of total unrecognized compensation cost related to non-vested share-based awards. This cost is expected to be recognized over a weighted-average period of two years.

Stock option activity for the nine months ended September 30, 2013 was as follows (shares in thousands):

	Weighted-Average
Shares	Exercise Price

Edgar Filing: PERFICIENT INC - Form 10-Q

Options outstanding at December 31, 2012	303	\$	5.08
Options exercised	(36)		2.34
Options canceled	(10)		0.63
Options outstanding at September 30, 2013	257		5.63
Options vested at September 30, 2013	257	\$	5.63

8

Edgar Filing: PERFICIENT INC - Form 10-Q

Restricted stock activity for the nine months ended September 30, 2013 was as follows (shares in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at December 31, 2012	1,939	\$ 9.93
Awards granted	371	11.64
Awards vested	(437)	9.72
Awards forfeited	(93)	10.07
Restricted stock awards outstanding at September 30, 2013	1,780	\$ 10.31

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, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Net income	\$7,234	\$5,142	\$15,919	\$11,731
Basic:				
Weighted-average shares of common stock outstanding	30,141	30,021	30,287	29,273
Shares used in computing basic net income per share	30,141	30,021	30,287	29,273
Effect of dilutive securities:				
Stock options	154	190	156	201
Restricted stock subject to vesting	773	662	634	619
Contingently issuable shares	-	104	-	107
Shares issuable for acquisition consideration (1)	740	697	615	644
Shares used in computing diluted net income per share	31,808	31,674	31,692	30,844
Basic net income per share	\$0.24	\$0.17	\$0.53	\$0.40
Diluted net income per share	\$0.23	\$0.16	\$0.50	\$0.38
Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share	-	14	1	14

For the three and nine months ended September 30, 2013, this represents the shares held in escrow pursuant to: (i) the Agreement and Plan of Merger with Northridge Systems, Inc. ("Northridge"); (ii) the Asset Purchase Agreement with Nascent Systems, LP ("Nascent"); (iii) the Agreement and Plan of Merger with TriTek Solutions, Inc. ("TriTek"); and (iv) the Asset Purchase Agreement with Clear Task, Inc. ("Clear Task") as part of the (1) consideration. For the three and nine months ended September 30, 2012, this represents the shares held in escrow pursuant to: (i) the Agreement and Plan of Merger with speakTECH; (ii) the Asset Purchase Agreement with PointBridge Solutions, LLC ("PointBridge"); (iii) the Asset Purchase Agreement with Nascent; and (iv) the Agreement and Plan of Merger with Northridge 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.

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, 2013 are as follows (in thousands):

	Operating Leases
2013 remaining	\$ 1,086
2014	3,990
2015	3,066
2016	2,734
2017	2,149
Thereafter	1,639
Total minimum lease payments	\$ 14,664

6. Balance Sheet Components

September 30, December 31,
2013 2012
(in thousands)

Accounts receivable:

Accounts receivable	\$52,120	\$49,661
Unbilled revenues	32,410	20,725
Allowance for doubtful accounts	(1,095)	(724)
Total	\$83,435	\$69,662

Property and equipment:

Computer hardware (useful life of 3 years)	\$8,626	\$6,906
Furniture and fixtures (useful life of 5 years)	2,158	2,046
Leasehold improvements (useful life of 5 years)	1,986	1,775
Software (useful life of 1 to 7 years)	6,018	2,006
Less: Accumulated depreciation	(10,537)	(8,335)
Total	\$8,251	\$4,398

Other current liabilities:

Accrued variable compensation	\$9,936	\$9,846
Deferred revenue	2,764	2,974
Payroll related costs	3,080	1,193
Accrued subcontractor fees	2,344	2,294
Accrued medical claims expense	1,262	1,145
Acquired liabilities	746	64
Other current liabilities	4,562	3,089
Estimated fair value of contingent consideration liability(1)	1,534	-
Total	\$26,228	\$20,605

(1) Represents the fair value estimate of additional earnings-based contingent consideration that may be realized by Clear Task's interest holders 12 months after the Clear Task acquisition.

7. Business Combinations

Acquisition of PointBridge

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

The Company's total allocable purchase price consideration was \$20.5 million. The purchase price was comprised of \$14.4 million in cash paid and \$6.1 million of Company common stock issued at closing. The Company incurred approximately \$0.7 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$5.0
Acquired intangible assets	6.2
Liabilities assumed	(1.1)
Goodwill	10.4
Total purchase price	\$20.5

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

Acquisition of Nascent

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

The Company's total allocable purchase price consideration was \$16.8 million. The purchase price was comprised of \$11.6 million in cash paid and \$5.2 million of Company common stock issued at closing. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$3.8
Acquired intangible assets	4.4
Liabilities assumed	(1.1)
Goodwill	9.7
Total purchase price	\$16.8

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

Acquisition of Northridge

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

Edgar Filing: PERFICIENT INC - Form 10-Q

The Company's total allocable purchase price consideration was \$13.9 million. The purchase price was comprised of \$10.7 million in cash paid and \$3.2 million of Company common stock issued at closing. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	\$3.1
Acquired intangible assets	4.1
Liabilities assumed	(2.9)
Goodwill	9.6
Total purchase price	\$13.9

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

Acquisition of TriTek

On May 1, 2013, the Company acquired TriTek, pursuant to the terms of an Agreement and Plan of Merger. TriTek is an IBM-focused enterprise content management and business process management consulting firm. The acquisition of TriTek further enhanced the Company's existing capabilities and further positioned the Company as the IBM solution provider of choice for enterprises across North America.

The Company has initially estimated the total allocable purchase price consideration to be \$21.1 million. The purchase price was comprised of \$17.0 million in cash paid and \$4.1 million of Company common stock issued at closing. The Company incurred approximately \$0.8 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	\$12.3
Acquired intangible assets	6.2
Liabilities assumed	(5.6)
Goodwill	8.2
Total purchase price	\$21.1

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

The amounts above represent the fair value estimates as of September 30, 2013 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 Clear Task

On May 17, 2013, the Company acquired Clear Task, pursuant to the terms of an Asset Purchase Agreement. Clear Task provided salesforce.com implementations and customizations for enterprise customers. Clear Task's professionals helped clients implement Service Cloud, Sales Cloud, Chatter and platform engagement solutions to strengthen customer, employee and partner relationships, and maintain their competitive advantage. The acquisition of Clear Task further expanded Perficient's cloud capabilities to include offerings from each of the world's leading cloud computing providers - IBM, Microsoft, Oracle and salesforce.com.

The Company has initially estimated the total allocable purchase price consideration to be \$8.7 million. The purchase price was comprised of \$6.0 million in cash paid and \$1.3 million of Company common stock issued at closing increased by \$1.4 million representing the initial fair value estimate of additional earnings-based contingent consideration, which may be realized by the Clear Task selling shareholders 12 months after the closing date of the acquisition. If the contingency is achieved, 80% of the earnings-based contingent consideration will be paid in cash and 20% will be issued in stock to the Clear Task selling shareholders. The contingent consideration is recorded in "Other current liabilities" on the Condensed Consolidated Balance Sheet as of September 30, 2013. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

Edgar Filing: PERFICIENT INC - Form 10-Q

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	1.7
Liabilities assumed	(0.7)
Goodwill	5.5
Total purchase price	\$8.7

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

The amounts above represent the fair value estimates as of September 30, 2013 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 TriTek and Clear Task operations have been included in the Company's condensed consolidated financial statements since the respective acquisition dates.

The amounts of revenue and net income of TriTek and Clear Task included in the Company's Condensed Consolidated Statements of Operations from the acquisition date to September 30, 2013 are as follows (in thousands):

	Acquisition Date to September 30, 2013
Revenues	\$ 12,198
Net income	\$ 1,675

Acquisition of CoreMatrix Systems LLC ("CoreMatrix")

On October 11, 2013, the Company acquired CoreMatrix, pursuant to the terms of an Asset Purchase Agreement. Refer to Note 11, Subsequent Events, for further discussion.

Pro-forma Results of Operations

The following presents the unaudited pro-forma combined results of operations of the Company with TriTek and Clear Task for the nine months ended September 30, 2013 and PointBridge, Nascent, Northridge, TriTek, and Clear Task for the nine months ended September 30, 2012, after giving effect to certain pro-forma adjustments related to the amortization of acquired intangible assets and assuming TriTek and Clear Task were acquired as of the beginning of 2012 and PointBridge, Nascent, and Northridge were acquired as of the beginning of 2011.

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, 2012 or January 1, 2011 or of future results of operations of the consolidated entities (in thousands, except per share information):

Nine Months Ended
September 30,

Edgar Filing: PERFICIENT INC - Form 10-Q

	2013	2012
Revenues	\$287,806	\$278,658
Net income	\$18,079	\$13,451
Basic net income per share	\$0.59	\$0.45
Diluted net income per share	\$0.57	\$0.43
Shares used in computing basic net income per share	30,649	30,222
Shares used in computing diluted net income per share	31,692	31,476

13

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 five months to eight 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. 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, 2013 are as follows (in thousands):

Balance at December 31, 2012	\$ 160,936
Preliminary purchase price allocations for acquisitions (Note 7)	13,704
Purchase accounting adjustments	522
Balance at September 30, 2013	\$ 175,162

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, 2013			December 31, 2012		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer relationships	\$26,913	\$ (9,235)	\$ 17,678	\$22,682	\$ (7,299)	\$ 15,383
Non-compete agreements	1,400	(635)	765	1,156	(425)	731
Customer backlog	685	(497)	188	306	(184)	122
Trade name	114	(46)	68	265	(204)	61
Internally developed software	3,346	(719)	2,627	1,642	(589)	1,053
Total	\$32,458	\$ (11,132)	\$ 21,326	\$26,051	\$ (8,701)	\$ 17,350

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

Customer relationships	3 – 8 years
Non-compete agreements	2 – 5 years
Internally developed software	1 – 7 years
Trade name	1 year
Customer backlog	5 – 8 months

9. Line of Credit

On July 31, 2013, 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 \$75.0 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 \$5.0 million at any one time. Outstanding letters of credit reduce the credit available for revolving credit borrowings. As of September 30, 2013, the Company had an outstanding letter of credit in the amount of \$0.2 million to secure an office space lease. The Credit Agreement also allows for the issuance of swing line loans in the aggregate of \$10.0 million. Substantially all of the Company's assets are pledged to secure the credit facility.

Edgar Filing: PERFICIENT INC - Form 10-Q

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 facility bear interest at the Company's option of SVB's prime rate (4.00% on September 30, 2013) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.18% on September 30, 2013) 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, 2013, the Company had \$58.8 million of 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.

At September 30, 2013, 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 and including 2009. As of September 30, 2013, the IRS has proposed no significant adjustments to any of the Company's tax positions. The Company's 2011 U.S. income tax return is currently under examination by the IRS.

Under the provisions of the ASC Subtopic 740-10-25, Income Taxes - Recognition, the Company had an unrecognized tax benefit of \$0.5 million as of September 30, 2013.

The Company's effective tax rate was 29.5% and 30.5% for the respective three and nine months ended September 30, 2013 compared to 31.0% and 38.1% for the respective three and nine months ended September 30, 2012. The decrease in the effective rate is primarily due to (i) the research and development tax credit for 2012, which was approved by Congress in January 2013 and which was recorded in the first quarter as a discrete item, (ii) the research and development tax credit for 2013, (iii) the U.S. domestic production deduction for 2010, 2011, and 2012 which was recorded in the third quarter as a discrete item, and (iv) the U.S. domestic production deduction for 2013. In addition to the research and development tax credit and U.S. domestic production deduction, the difference between the Company's federal statutory rate of 35% and the effective tax rate relates primarily to state income taxes, net of the federal benefit, and permanent non-deductible items such as non-deductible executive compensation and 50% of meals and entertainment expenses. As of September 30, 2013, the Company's net current deferred tax asset was \$0.6 million and its net non-current deferred tax liability was \$2.0 million. Generally, deferred tax assets are related to stock compensation, accruals and net operating losses of acquired companies. Deferred tax liabilities relate to goodwill, fixed asset depreciation, and prepaid expenses. Net current deferred tax assets are recorded in "Other current assets" and net non-current deferred liabilities are recorded in "Other non-current liabilities" on the Condensed Consolidated Balance Sheets as of September 30, 2013 and December 31, 2012.

11. Subsequent Events

On October 11, 2013, the Company acquired CoreMatrix, pursuant to the terms of an Asset Purchase Agreement, for approximately \$31.5 million, of which approximately \$18.5 million was cash paid at closing, \$3.0 million was Company common stock placed in a one-year escrow at closing, and \$10.0 million represents the initial fair value estimate of additional earnings-based contingent consideration, which may be realized by CoreMatrix at 12 and 24 months after the closing date of the acquisition. If the contingency is achieved, 70% of the earnings-based contingent consideration will be paid in cash and 30% will be issued in stock to CoreMatrix. CoreMatrix was a

salesforce.com cloud computing services and solutions firm. The acquisition of CoreMatrix provides the Company with the comprehensive capacity to sell and deliver Salesforce solutions across North America.

Goodwill and intangible assets are expected to be recorded on the Consolidated Balance Sheet from the acquisition of CoreMatrix. As of November 7, 2013, the initial accounting for the business combination has not been completed, including the measurement of certain intangible assets and goodwill. Acquisition costs for the three and nine months ended September 30, 2013 were immaterial.

12. Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" that requires entities to disclose either on the face of or in the notes to the financial statements the effects of reclassifications out of accumulated other comprehensive income ("AOCI"). For items reclassified out of AOCI and into net income in their entirety, entities must disclose the effect of the reclassification on each affected net income item. For items that are not reclassified in their entirety into net income, entities must provide a cross reference to other required U.S. GAAP disclosures. This ASU does not change the items currently reported in other comprehensive income and is effective for annual reporting periods beginning after December 15, 2012 and interim periods within those years. The adoption of these provisions did not have an impact on the condensed consolidated financial statements of the Company.

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," "expect," "anticipate," "believe," "estimate" and "continue" or similar 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 10% of our services revenues for the three and nine months ended September 30, 2013 compared to 11% and 10% for the respective three and nine months ended September 30, 2012. 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 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 are typically lower than gross margin percentages for services, and the mix of services and software and hardware for a particular period can significantly impact our total combined gross margin percentage for such period. In addition, gross margin for software and hardware sales can fluctuate due to pricing and other competitive pressures.

Selling, General, and Administrative Expenses

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

Plans for Growth and Acquisitions

Our goal is to continue to build one of the leading independent information technology consulting firms by expanding our relationships with existing and new clients and through the continuation of our disciplined acquisition strategy.

Our future growth plan includes expanding our business with a primary focus on customers in the United States, both organically and through acquisitions. We also intend to further leverage our existing offshore capabilities to support our future growth and provide our clients flexible options for project delivery.

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

Results of Operations

Three months ended September 30, 2013 compared to three months ended September 30, 2012

Revenues. Total revenues increased 11% to \$96.8 million for the three months ended September 30, 2013 from \$87.5 million for the three months ended September 30, 2012.

Edgar Filing: PERFICIENT INC - Form 10-Q

Financial Results (in thousands)	Explanation for Increases Over Prior Year Period (in thousands)				
	For the Three Months Ended September 30, 2013	For the Three Months Ended September 30, 2012	Total Increase Over Prior Year Period	Increase (Decrease) Attributable to Acquired Companies	Increase (Decrease) Attributable to Base Business
Services Revenues	\$86,568	\$ 75,948	\$ 10,620	\$ 7,132	\$ 3,488
Software and Hardware Revenues	5,620	7,450	(1,830)	12	(1,842)
Reimbursable Expenses	4,570	4,076	494	241	253
Total Revenues	\$96,758	\$ 87,474	\$ 9,284	\$ 7,385	\$ 1,899

Edgar Filing: PERFICIENT INC - Form 10-Q

Services revenues increased 14% to \$86.6 million for the three months ended September 30, 2013 from \$75.9 million for the three months ended September 30, 2012. Services revenues attributable to our base business increased by \$3.5 million while services revenues attributable to acquired companies increased \$7.1 million, resulting in a total increase of \$10.6 million.

Software and hardware revenues decreased 25% to \$5.6 million for the three months ended September 30, 2013 from \$7.5 million for the three months ended September 30, 2012 primarily due to a decrease in initial and renewal software license sales. Reimbursable expenses increased 12% to \$4.6 million for the three months ended September 30, 2013 from \$4.1 million for the three months ended September 30, 2012. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 6% to \$62.9 million for the three months ended September 30, 2013 from \$59.2 million for the three months ended September 30, 2012. The increase in cost of revenues is primarily related to costs associated with service revenue which increased 9% to \$53.4 million for the three months ended September 30, 2013 from \$48.9 million due to an increase in revenue as noted above. Software and hardware costs decreased 22% to \$4.9 million for the three months ended September 30, 2013 from \$6.3 million for the three months ended September 30, 2012, as a result of lower software sales.

Gross Margin. Gross margin increased 20% to \$33.9 million for the three months ended September 30, 2013 from \$28.2 million for the three months ended September 30, 2012. Gross margin as a percentage of revenues increased to 35.0% for the three months ended September 30, 2013 from 32.3% for the three months ended September 30, 2012. Services gross margin, excluding reimbursable expenses, increased to 38.3% or \$33.2 million for the three months ended September 30, 2013 from 35.7% or \$27.1 million for the three months ended September 30, 2012. The increase in services gross margin is primarily a result of a higher average bill rate. The average bill rate for our professionals increased to \$120 per hour for the three months ended September 30, 2013 from \$115 per hour for the three months ended September 30, 2012, primarily due to improved pricing opportunities. The average employee bill rate for the three months ended September 30, 2013 excluding offshore resources was \$137 per hour compared to \$130 per hour for the three months ended September 30, 2012.

Selling, General and Administrative. SG&A expenses increased 16% to \$20.5 million for the three months ended September 30, 2013 from \$17.7 million for the three months ended September 30, 2012 primarily due to an increase in research and development costs, sales related costs, and general and administrative salaries. SG&A expenses, as a percentage of revenues, increased to 21.2% for the three months ended September 30, 2013 from 20.3% for the three months ended September 30, 2012.

Depreciation. Depreciation expense increased 52% to \$0.9 million for the three months ended September 30, 2013 from \$0.6 million for the three months ended September 30, 2012. The increase in depreciation expense is mainly attributable to the addition of fixed assets from acquisitions during 2012 and 2013. Depreciation expense as a percentage of revenues was 1.0% for the three months ended September 30, 2013 and 0.7% for the three months ended September 30, 2012.

Amortization. Amortization expense decreased 13% to \$2.0 million for the three months ended September 30, 2013 from \$2.3 million for the three months ended September 30, 2012. The decrease in amortization expense is due to the timing of assets being fully amortized. Amortization expense as a percentage of revenues was 2.0% for the three months ended September 30, 2013 and 2.6% for the three months ended September 30, 2012.

Acquisition Costs. Acquisition-related costs were immaterial in both the three months ended September 30, 2013 and the three months ended September 30, 2012.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$0.1 million was recorded during the three months ended September 30, 2013 for the accretion of the fair value estimate for the earnings-based contingent

consideration related to the Clear Task acquisition. An adjustment of \$0.1 million was made during the three months ended September 30, 2012 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the Exervio acquisition.

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 29.5% for the three months ended September 30, 2013 from 31.0% for the three months ended September 30, 2012 due mainly to the U.S. domestic production deduction for 2010, 2011, 2012 and 2013.

Edgar Filing: PERFICIENT INC - Form 10-Q

Nine months ended September 30, 2013 compared to nine months ended September 30, 2012

Revenues. Total revenues increased 13% to \$275.9 million for the nine months ended September 30, 2013 from \$244.0 million for the nine months ended September 30, 2012.

	Financial Results			Explanation for	
	(in thousands)			Increases Over Prior	
	For the	For the	Total	Increase	Increase
	Nine	Nine	Increase	(Decrease)	Increase
	Months	Months	Over	Attributable	(Decrease)
	Ended	Ended	Prior	to	Attributable
	September	September	Year	Acquired to Base	Business
	30, 2013	30, 2012	Period	Companies	
Services Revenues	\$240,549	\$214,793	\$25,756	\$22,338	\$ 3,418
Software and Hardware Revenues	23,169	17,122	6,047	410	5,637
Reimbursable Expenses	12,142	12,053	89	721	(632)
Total Revenues	\$275,860	\$243,968	\$31,892	\$23,469	\$ 8,423

Services revenues increased 12% to \$240.5 million for the nine months ended September 30, 2013 from \$214.8 million for the nine months ended September 30, 2012. The increase in services revenues is primarily due to the acquisitions in 2012 and 2013. Services revenues attributable to our base business increased \$3.4 million while services revenues attributable to acquired companies increased \$22.3 million, resulting in a total increase of \$25.8 million.

Software and hardware revenues increased 35% to \$23.2 million for the nine months ended September 30, 2013 from \$17.1 million for the nine months ended September 30, 2012 due to an increase in initial software license sales, the volume of hardware sales, and larger hardware sales compared to 2012. Reimbursable expenses were \$12.1 million for both the nine months ended September 30, 2013 and the nine months ended September 30, 2012. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 12% to \$185.9 million for the nine months ended September 30, 2013 from \$166.3 million for the nine months ended September 30, 2012. The increase in cost of revenues is primarily related to costs associated with service revenue which increased 10% to \$153.3 million for the nine months ended September 30, 2013 from \$139.7 million for the nine months ended September 30, 2012. Costs associated with software and hardware sales, increased 41% to \$20.5 million for the nine months ended September 30, 2013 from \$14.6 million for the nine months ended September 30, 2012, as a result of increased software and hardware sales.

Gross Margin. Gross margin increased 16% to \$90.0 million for the nine months ended September 30, 2013 from \$77.6 million for the nine months ended September 30, 2012. Gross margin as a percentage of revenues increased to 32.6% for the nine months ended September 30, 2013 from 31.8% for the nine months ended September 30, 2012.

Services gross margin, excluding reimbursable expenses, increased to 36.3% or \$87.3 million for the nine months ended September 30, 2013 from 34.9% or \$75.1 million for the nine months ended September 30, 2012. The increase in services gross margin is primarily a result of higher average bill rates. The average bill rate for our professionals increased to \$119 per hour for the nine months ended September 30, 2013 from \$114 per hour for the nine months ended September 30, 2012, primarily due to the improved pricing opportunities. The average employee bill rate for the nine months ended September 30, 2013, excluding offshore resources, was \$134 per hour compared to \$128 per hour for the nine months ended September 30, 2012.

Selling, General and Administrative. SG&A expenses increased 17% to \$57.3 million for the nine months ended September 30, 2013 from \$49.1 million for the nine months ended September 30, 2012 primarily due to an increase in research and development costs, office costs and general and administrative salaries. SG&A expenses, as a percentage of revenues, increased to 20.8% for the nine months ended September 30, 2013 from 20.1% for the nine months ended September 30, 2012.

Depreciation. Depreciation expense increased 47% to \$2.3 million for the nine months ended September 30, 2013 from \$1.6 million for the nine months ended September 30, 2012. The increase in depreciation expense is mainly attributable to the addition of depreciation related to fixed assets from acquisitions during 2012 and 2013. Depreciation expense as a percentage of revenues was 0.8% for the nine months ended September 30, 2013 and 0.7% for the nine months ended September 30, 2012.

Amortization. Amortization expense increased 2% to \$5.8 million for the nine months ended September 30, 2013 from \$5.7 million for the nine months ended September 30, 2012. The increase in amortization expense is due to the addition of amortization related to acquired intangible assets during 2012 and 2013, offset by fully amortized intangible assets.

Acquisition Costs. Acquisition-related costs decreased 21% to \$1.4 million for the nine months ended September 30, 2013 from \$1.8 million for the nine months ended September 30, 2012. The acquisition-related costs incurred during the nine months ended September 30, 2013 were related to the acquisition of TriTek and Clear Task while the acquisition-related costs incurred during the nine months ended September 30, 2012 were related to the acquisition of PointBridge, Nascent and Northridge. Acquisition-related costs were incurred for legal, accounting, and valuation services performed by third parties.

Adjustment to Fair Value of Contingent Consideration. A \$0.1 million adjustment to the fair value of contingent consideration was recorded during the nine months ended September 30, 2013 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the Clear Task acquisition. An adjustment of \$0.4 million was made during the nine months ended September 30, 2012 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the Exervio acquisition.

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, 2013 from 38.1% for the nine months ended September 30, 2012 due mainly to the research and development tax credit for 2013, the research and development tax credit for 2012, which was approved by Congress in January 2013 and recorded in the first quarter of 2013, and the U.S. domestic production deduction for 2010, 2011, 2012 and 2013.

Liquidity and Capital Resources

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

	As of September 30, 2013	As of December 31, 2012
Cash, cash equivalents and investments	\$ 5.4	\$ 5.8
Working capital (including cash and cash equivalents)	\$ 63.3	\$ 52.3
Amounts available under credit facilities	\$ 58.8	\$ 47.2

Net Cash Provided By Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2013 was \$25.8 million compared to net cash provided by operating activities of \$20.8 million for the nine months ended September 30, 2012. For the nine months ended September 30, 2013, the primary components of operating cash flows were net income of \$15.9 million plus non-cash charges of \$15.6 million and working capital investments of \$5.7 million. The primary components of operating cash flows for the nine months ended September 30, 2012 were net income of \$11.7 million plus non-cash charges of \$14.1 million, offset by investments in working capital of \$5.0 million.

Net Cash Used In Investing Activities

During the nine months ended September 30, 2013, we used \$19.8 million for acquisition purchases and \$6.0 million to purchase property and equipment and to develop certain software for internal use. During the nine months ended September 30, 2012, we used \$36.4 million for acquisition purchases and \$1.5 million for purchases of equipment and to develop certain software for internal use. The increase in purchases of property and equipment during the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 is primarily due to our investment in a company-wide agreement for various software licenses.

Net Cash Provided By Financing Activities

During the nine months ended September 30, 2013, we drew down \$128.2 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 \$1.9 million. We repaid \$115.0 million on our line of credit, incurred \$0.4 million in credit facility fees, used \$13.1 million to repurchase shares of our common stock through the stock repurchase program and \$2.0 million to remit taxes withheld as part of a net share settlement of restricted stock vesting. For the nine months ended September 30, 2012, we drew down \$116.1 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 \$0.9 million. We repaid \$104.6 million on our line of credit, used \$0.4 million to settle a portion of the contingent consideration for the purchase of Exervio, used \$0.6 million to repurchase shares of our common stock through the stock repurchase program and used \$0.6 million to remit taxes withheld as part of a net share settlement of restricted stock vesting.

Availability of Funds from Bank Line of Credit Facility

On July 31, 2013, 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 \$75.0 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 \$5.0 million at any one time. Outstanding letters of credit reduce the credit available for revolving credit borrowings. As of September 30, 2013, the Company had an outstanding letter of credit in the amount of \$0.2 million to secure an office space lease. The Credit Agreement also allows for the issuance of swing line loans in the aggregate of \$10.0 million. 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 July 31, 2017. Borrowings under the credit facility bear interest at the Company's option of SVB's prime rate (4.00% on September 30, 2013) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.18% on September 30, 2013) 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, 2013, the Company had \$58.8 million of borrowing capacity. An annual commitment fee of 0.30% is incurred on the unused portion of the line of credit.

At September 30, 2013, the Company was in compliance with all covenants under the Credit Agreement.

Stock Repurchase Program

Prior to 2013, our Board of Directors authorized the repurchase of up to \$70.0 million of our common stock. In June 2013, our Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock for a total repurchase program of \$90.0 million. The repurchase program expires December 31, 2014.

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 \$73.1 million (8.9 million shares) of our outstanding common stock through September 30, 2013.

Contractual Obligations

There were no material changes outside the ordinary course of our business in lease obligations in the first nine months of 2013.

As of September 30, 2013, there was \$16.0 million outstanding under the Credit Agreement as compared to \$2.8 million as of December 31, 2012. The amounts are classified as "Long-term debt" within the Condensed Consolidated Balance Sheets 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 reported on the Condensed Consolidated Balance Sheet as of September 30, 2013 of \$5.4 million, approximately \$4.3 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, 2012. 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, 2013, we were exposed to changes in exchange rates between the U.S. dollar and the Canadian Dollar, between the U.S. Dollar and the Chinese Yuan, and between the U.S. Dollar and the Indian Rupee. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. Dollars. Our exposure to foreign currency risk is not significant.

Interest Rate Sensitivity

As of September 30, 2013, there was \$16.0 million outstanding and \$58.8 million of available borrowing capacity under our line of credit facility. Our interest expense will fluctuate as the interest rate for the line of credit floats based, at our option, on our lead lender's prime rate plus a margin or the one-month LIBOR rate plus a margin. Based on the \$16.0 million outstanding on the line of credit as of September 30, 2013, an increase in the interest rate of 100 basis points would add \$160,000 of interest expense per year, which is not considered material to our financial position or results of operations.

We had unrestricted cash and cash equivalents totaling \$5.4 million at September 30, 2013 and \$5.8 million at December 31, 2012. 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

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, 2013, 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, 2012, as filed with the SEC on March 7, 2013 and available at 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

Issuer Purchases of Securities

Prior to 2013, our Board of Directors authorized the repurchase of up to \$70.0 million of our common stock. In June 2013, the Board of Directors authorized the repurchase of up to an additional \$20.0 million of our common stock for a total repurchase program of \$90.0 million. The repurchase program expires December 31, 2014. 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 \$73.1 million of our outstanding common stock through September 30, 2013.

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, 2013	8,730,970	\$ 8.02	8,730,970	\$20,015,869
July 1-31, 2013	44,800	13.83	44,800	\$19,396,122
August 1-31, 2013	110,400	16.73	110,400	\$17,548,952
September 1-30, 2013	42,500	16.16	42,500	\$16,862,119
Ending Balance as of September 30, 2013	8,928,670	\$ 8.19	8,928,670	

(1) Average price paid per share includes commission.

Item 5. Other Information

On November 5, 2013, David D. May resigned from the Board of Directors of the Company effective on that date. Mr. May's resignation was not due to any disagreement with the Company or the Board of Directors on any matter relating to the Company's operations, policies or practices.

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 7, 2013 By: /s/ Jeffrey S. Davis
Jeffrey S. Davis
Chief Executive Officer (Principal Executive Officer)

Date: November 7, 2013 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	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 (File No. 001-15169) 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 (File No. 001-15169) filed May 7, 2009 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
101*	The following financial information from Perficient, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2013 (Unaudited) and December 31, 2012, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2013 and 2012, (iii) Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2013 and 2012, (iv) Condensed Consolidated Statement of Shareholders' Equity (Unaudited) for the nine months ended September 30, 2013, (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2013 and 2012, 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 or otherwise subject to the liabilities of that section.