

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2016

OR

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

For the transition period from to

Commission file number: 001-15169
PERFICIENT, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

No. 74-2853258

(I.R.S. Employer Identification No.)

555 Maryville University Drive
Suite 600

Saint Louis, Missouri 63141

(Address of principal executive offices)

(314) 529-3600

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements during the past 90 days. ☐ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

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

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

TABLE OF CONTENTS

Part I.	Financial Information	1
Item 1.	Financial Statements	2
	Condensed Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015	2
	Unaudited Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2016 and 2015	3
	Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015	4
	Unaudited Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2016	5
	Unaudited Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015	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	22
Item 4.	Controls and Procedures	22
Part II.	Other Information	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 5.	Other Information	23
Item 6.	Exhibits	23
	Signatures	24

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

This discussion is not exhaustive, but is designed to highlight important factors that may impact our forward-looking statements. Because the factors referred to above, as well as the statements included under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015 and elsewhere in this Form 10-Q, including documents incorporated by reference therein and herein, could cause actual results or outcomes to differ materially from those expressed in any forward-looking statement made by us or on our behalf, you should not place undue reliance on any forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We are under no duty to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results.

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

Item 1. Financial Statements

Perficient, Inc.
Condensed Consolidated Balance Sheets

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

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Unaudited Condensed Consolidated Statements of Operations

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

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Unaudited Condensed Consolidated Statements of Comprehensive Income

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

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Unaudited Condensed Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2016
(In thousands)

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

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 16,766	\$ 15,437
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	3,619	3,322
Amortization	9,937	10,569
Deferred income taxes	481	(351)
Non-cash stock compensation and retirement savings plan contributions	10,395	9,807
Tax benefit from stock option exercises and restricted stock vesting	-	(974)
Adjustment to fair value of contingent consideration for purchase of business	(1,817)	273
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	12,877	7,830
Other assets	3,514	2,365
Accounts payable	(5,308)	(8,267)
Other liabilities	(10,565)	(13,759)
Net cash provided by operating activities	39,899	26,252
INVESTING ACTIVITIES		
Purchase of property and equipment	(3,575)	(2,462)
Capitalization of internally developed software costs	(1,761)	(819)
Purchase of short-term investments	(869)	-
Purchase of businesses, net of cash acquired	(277)	(26,605)
Net cash used in investing activities	(6,482)	(29,886)
FINANCING ACTIVITIES		
Proceeds from line of credit	153,000	201,500
Payments on line of credit	(181,000)	(194,500)
Payments for credit facility financing fees	(194)	(193)
Payment of contingent consideration for purchase of business	(2,144)	-
Tax benefit from stock option exercises and restricted stock vesting	-	974
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	154	284
Purchases of treasury stock	-	(2,840)
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(2,530)	(3,644)
Net cash (used in) provided by financing activities	(32,714)	1,581
Effect of exchange rate on cash and cash equivalents	(193)	(190)
Change in cash and cash equivalents	510	(2,243)
Cash and cash equivalents at beginning of period	8,811	10,935
Cash and cash equivalents at end of period	\$ 9,321	\$ 8,692
Supplemental disclosures:		
Cash paid for income taxes	\$ 2,587	\$ 4,835
Cash paid for interest	\$ 1,211	\$ 1,487
Non-cash activity:		
Stock issued for purchase of business	\$ 96	\$ 12,493
Stock surrendered by Zeon in conjunction with net working capital settlement	\$ 1,499	\$ -
Liability incurred for purchase of property, plant and equipment	\$ 1,671	\$ -
Current liability assumed for prepaid asset	\$ -	\$ 761

See accompanying notes to interim unaudited condensed consolidated financial statements.

1. Basis of Presentation

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

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

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates, and such differences could be material to the financial statements.

Revenue Recognition

Service revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, service revenues are recognized and billed by multiplying the number of hours expended in the performance of the contract by the established billing rates. For fixed fee projects, service revenues are generally recognized using an input method based on the ratio of hours expended to total estimated hours. Amounts invoiced and collected in excess of revenues recognized are classified as deferred revenues. In conjunction with services provided, the Company occasionally receives referral fees under partner programs. These referral fees are recorded when earned within service revenues. Revenues from software and hardware sales are generally recorded on a gross basis considering the Company's role as a principal in the transaction. Revenues from sales of third-party software-as-a-service arrangements where the Company is not the primary obligor are recorded on a net basis. On many projects the Company is also reimbursed for out-of-pocket expenses including travel and other project-related expenses. These reimbursements are included as a component of revenues. We did not realize any profit on reimbursable expenses.

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

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

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

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

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

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

3. Stock-Based Compensation

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

Stock Award Plans

The Company's Amended and Restated Perficent, Inc. 2012 Long Term Incentive Plan (as amended, the "Incentive Plan") allows for the granting of various types of stock awards, not to exceed a total of 5.0 million shares, to eligible individuals. The Compensation Committee of the Board of Directors administers the Incentive Plan and determines the terms of all stock awards made under the Incentive Plan.

Stock-based compensation cost recognized for the three and nine months ended September 30, 2016 was approximately \$3.2 million and \$10.6 million, respectively, which included \$0.6 million and \$1.9 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.2 million and \$3.5 million for the three and nine months ended September 30, 2016, respectively. Stock-based compensation cost recognized for the three and nine months ended September 30, 2015 was approximately \$3.2 million and \$10.1 million, respectively, which included \$0.6 and \$1.7 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.1 million and \$3.2 million for the three and nine months ended September 30, 2015, respectively. As of September 30, 2016, there was \$15.9 million of total unrecognized compensation cost related to non-vested share-based awards. This cost is expected to be recognized over a weighted-average period of two years.

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

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

4. Net Income per Share

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

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

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

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

5. Commitments and Contingencies

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

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

Certain of the Company's operating leases contain predetermined fixed escalations of minimum rentals during the original lease terms. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and records the difference between the amounts charged to operations and amounts paid as accrued rent expense.

The Company leases office space and certain equipment under various operating lease agreements. The Company has the option to extend the term of certain lease agreements. Future minimum commitments under these lease agreements as of September 30, 2016 were as follows and excludes the impact of the acquisition referenced in Note 12, *Subsequent Events* (in thousands):

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

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

6. Balance Sheet Components

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

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

7. Business Combinations

2015 Acquisitions

Acquisition of Zeon

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

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

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

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

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

Acquisition of Market Street

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

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

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

Acquired tangible assets	\$	1.3
Acquired intangible assets		3.1
Liabilities assumed		(2.9)
Goodwill		3.9
Total purchase price	\$	<u>5.4</u>

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

Acquisition of Enlighten

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

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

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

Acquired tangible assets	\$	4.4
Acquired intangible assets		4.3
Liabilities assumed		(2.6)
Goodwill		10.1
Total purchase price	\$	<u>16.2</u>

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

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

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

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

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

Pro-forma Results of Operations

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

These unaudited pro-forma results are presented in compliance with the adoption of ASU No. 2010-29, *Business Combinations* (Topic 805), *Disclosure of Supplementary Pro Forma Information for Business Combinations*, and are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2014 or of future results of operations of the consolidated entities (in thousands, except per share information):

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

8. Goodwill and Intangible Assets

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. In accordance with ASC Topic 350, *Intangibles – Goodwill and Other*, the Company performs an annual impairment review in the fourth quarter and more frequently if events or changes in circumstances indicate that goodwill might be impaired. There was no indication that goodwill became impaired as of September 30, 2016.

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

Goodwill

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

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

Intangible Assets with Definite Lives

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

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

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

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

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

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

9. Line of Credit

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

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

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

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

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

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

10. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Internal Revenue Service (the "IRS") has completed examinations of the Company's U.S. income tax returns or the statute of limitations has passed on returns for the years through 2010. The Company's 2011, 2012 and 2013 U.S. income tax returns are currently under examination by the IRS. The IRS has sought to disallow certain research credits on the Company's 2011 and 2012 U.S. income tax returns. The Company is actively appealing the IRS's initial findings. The Company believes the research credits taken are appropriate and intends to vigorously defend its position. The amount of adjustment, if any, and the timing of such adjustment is not reasonably estimable at this time.

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

The Company's effective tax rate was 26.9% and 31.0% for the three and nine months ended September 30, 2016, respectively, compared to 33.4% and 30.5% for the three and nine months ended September 30, 2015, respectively. The decrease in the effective rate for the three months ended September 30, 2016 is primarily due to an additional research and development tax credit related to the current year and a favorable impact related to the early adoption of ASU No. 2016-09. See Note 13, *Recent Accounting Pronouncements*, for additional information regarding the adoption of ASU No. 2016-09. As of September 30, 2016, the Company's net non-current deferred tax liability was \$8.9 million. Deferred tax liabilities relate to goodwill, intangibles, fixed asset depreciation, and prepaid expenses. Net non-current deferred tax liabilities are recorded in "Other non-current liabilities" on the Condensed Consolidated Balance Sheet as of September 30, 2016 (unaudited) and December 31, 2015.

11. Financial Instruments

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

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

Derivatives Not Designated as Hedging Instruments

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

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

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

Fair Value of Financial Instruments

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

The fair value hierarchy consists of the following three levels:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The Company estimates the fair value of each foreign exchange forward contract by using the present value of expected cash flows. This considers the difference between the current market forward price and the contracted forward price for each foreign exchange contract and applies the difference in the rates to each outstanding contract. Valuations for all derivatives fall within Level 2 of the GAAP valuation hierarchy. The fair value of the Company's derivative instruments outstanding as of September 30, 2016 was immaterial.

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

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

The fair values of the Company's trading securities are estimated using quoted market prices and fall within Level 1 of the GAAP valuation hierarchy. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, current liabilities and the revolving line of credit approximate fair value because of the short maturity of these instruments.

12. Subsequent Events

Acquisition of Bluetube, LLC

On October 12, 2016, the Company acquired substantially all of the assets of Bluetube, LLC, a Georgia limited liability company ("Bluetube"), pursuant to the terms of an Asset Purchase Agreement which included approximately \$7.4 million of cash paid at closing and a maximum potential payout for additional revenue and earnings-based contingent consideration of \$2.7 million, which may be realized by Bluetube twelve months after the closing date of the acquisition. The acquisition of Bluetube expands the Company's expertise in mobile and web application development solutions.

Goodwill and intangible assets are expected to be recorded on the Consolidated Balance Sheet from the acquisition of Bluetube. As of November 3, 2016, the initial accounting for the business combination has not been completed, including the measurement of certain intangible assets and goodwill. Acquisition costs for the nine months ended September 30, 2016 were \$0.5 million.

13. Recent Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. This update eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayment or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU No. 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. This update is to become effective for the Company on January 1, 2018 and requires using a retrospective approach. The Company does not expect the adoption of ASU No. 2016-15 to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB deferred the effective date of ASU No. 2014-09 by one year. In 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations*, ASU No. 2016-10, *Identifying Performance Obligations and Licensing* and ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, all of which further amended ASU No. 2014-09. These new updates are to become effective for the Company on January 1, 2018. Early application is not permitted. The updates permit the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 and its related amendments will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the updates on its ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which supersedes ASC Topic 840, *Leases*, and creates a new topic, ASC Topic 842, *Leases*. This update requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is to become effective for the Company on January 1, 2019, with earlier application permitted. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the effect of this update on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This update was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update address, among other things, the recognition of excess tax benefits and deficiencies associated with share-based payments, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. The guidance in this update may be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update and is effective on January 1, 2017, with earlier application permitted. The Company elected to early adopt this update on January 1, 2016 in order to simplify its accounting for share-based payments. The adoption of this update resulted in a reduction of the Company's provision for income taxes of \$0.3 million for the nine months ended September 30, 2016. This update was applied prospectively and, as such, there was no impact to prior periods.

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

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

Overview

We are an information technology and management consulting firm serving Forbes Global 2000® and other large enterprise companies with a primary focus on the United States. We help clients gain competitive advantage by using technology to: make their businesses more responsive to market opportunities; strengthen relationships with customers, suppliers, and partners; improve productivity; and reduce information technology costs. Our digital experience, business optimization and industry solutions enable these benefits by developing, integrating, automating, and extending business processes, technology infrastructure and software applications end-to-end within an organization and with key partners, suppliers, and customers. Our solutions include big data and analytics, technology platform implementations, commerce, enterprise content management, portals and collaboration, management consulting, custom applications, business integration, business process management, and customer relationship management, 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 23% and 21% of our services revenues for the three and nine months ended September 30, 2016, respectively, compared to 19% and 17% for each of the three and nine months ended September 30, 2015, respectively. The increase in fixed fee revenues is primarily attributable to the Company's acquisition of Enlighten. 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. In conjunction with services provided, we occasionally receive referral fees under partner programs. These referral fees are recorded when earned within services revenues. On most projects, we are also reimbursed for out-of-pocket expenses including travel and other project-related expenses. 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 such expenses.

Software and Hardware Revenues

Software and hardware revenues are derived from sales of third-party and internally developed software and hardware. Revenues from sales of third-party software and hardware are generally recorded on a gross basis provided that we act as a principal in the transaction. Revenues from sales of third-party software-as-a-service arrangements where we are not the primary obligor 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 whether there is 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 our 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 of costs of services, software and hardware costs, and reimbursable expenses. Costs of services consists primarily of cash and non-cash compensation and benefits (including bonuses and non-cash compensation related to equity awards), costs associated with subcontractors and other unreimbursed project-related expenses. Cost of revenues does not include depreciation of assets used in the production of revenues which are primarily personal computers, servers, and other information technology related equipment.

Gross Margins

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

Selling, General, and Administrative Expenses

Selling, general and administrative ("SG&A") expenses are primarily composed of sales-related costs, general and administrative salaries, stock compensation expense, office costs, recruiting expense, variable compensation costs, marketing costs and other miscellaneous expenses. We have access to 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 optimize 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, 2016 compared to three months ended September 30, 2015

Revenues. Total revenues decreased 1% to \$119.2 million for the three months ended September 30, 2016 from \$120.9 million for the three months ended September 30, 2015.

	Financial Results (in thousands)		Explanation for (Decreases) Increases Over Prior Year Period (in thousands)		
	Three Months Ended September 30,		Total (Decrease) Increase Over Prior Year Period	Increase Attributable to Acquired Companies	Decrease Attributable to Base Business
	2016	2015			
Services revenues	\$ 102,958	\$ 105,351	\$ (2,393)	\$ 3,309	\$ (5,702)
Software and hardware revenues	11,184	11,520	(336)	967	(1,303)
Reimbursable expenses	5,011	4,038	973	1,701	(728)
Total revenues	\$ 119,153	\$ 120,909	\$ (1,756)	\$ 5,977	\$ (7,733)

Services revenues decreased 2% to \$103.0 million for the three months ended September 30, 2016 from \$105.4 million for the three months ended September 30, 2015. Services revenues attributable to our base business decreased by \$5.7 million and services revenues attributable to acquired companies was \$3.3 million, resulting in a total decrease of \$2.4 million.

Software and hardware revenues decreased 3% to \$11.2 million for the three months ended September 30, 2016 from \$11.5 million for the three months ended September 30, 2015, primarily due to a decrease in initial and renewal software license sales in our base business. Reimbursable expenses increased 24% to \$5.0 million for the three months ended September 30, 2016 from \$4.0 million for the three months ended September 30, 2015. The increase in reimbursable expenses is primarily due to the start up of services projects requiring extensive travel and, in part, the acquisition of Enlighten in which media buy expenses are passed through to customers. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 3% to \$82.7 million for the three months ended September 30, 2016 from \$80.5 million for the three months ended September 30, 2015. The increase in cost of revenues is partially related to increased costs associated with services revenues which increased 2% to \$67.5 million for the three months ended September 30, 2016 from \$66.3 million for the three months ended September 30, 2015 due to an increase in salaries and subcontractor costs. The remaining increase in cost of revenues is related to the increase in reimbursable expenses noted above. Software and hardware costs remained flat at \$10.2 million for both the three months ended September 30, 2016 and 2015.

Gross Margin. Gross margin decreased 10% to \$36.4 million for the three months ended September 30, 2016 from \$40.4 million for the three months ended September 30, 2015. Gross margin as a percentage of revenues decreased to 30.6% for the three months ended September 30, 2016 from 33.4% for the three months ended September 30, 2015 primarily due to a decrease in services gross margin. Services gross margin, excluding reimbursable expenses, decreased to \$35.4 million for the three months ended September 30, 2016 from \$39.1 million for the three months ended September 30, 2015. Services gross margin, excluding reimbursable expenses, as a percentage of revenues decreased to 34.4% for the three months ended September 30, 2016 from 37.1% for the three months ended September 30, 2015 primarily driven by a lower average bill rate with increased volume from offshore projects which carry lower average bill rates. The decline in services gross margin, excluding reimbursable expenses, was also driven by higher salaries and subcontractor costs and by lower revenues. The average bill rate for the three months ended September 30, 2016, was \$123 per hour compared to \$133 per hour for the three months ended September 30, 2015. This decrease resulted from the impact of a higher mix of lower bill rate offshore resources combined with a 1% reduction in the North American employee bill rate.

Selling, General and Administrative. SG&A expenses increased 3% to \$24.5 million for the three months ended September 30, 2016 from \$23.7 million for the three months ended September 30, 2015, primarily due to acquisitions completed during the second half of 2015 and the timing of the Company's annual sales meeting. SG&A expenses as a percentage of revenues increased to 20.5% for the three months ended September 30, 2016 from 19.6% for the three months ended September 30, 2015, primarily as a result of a lower revenue base.

Depreciation. Depreciation expense increased 6% to \$1.2 million for the three months ended September 30, 2016 from \$1.1 million for the three months ended September 30, 2015. The increase in depreciation expense is primarily attributable to an increase in capital expenditures to support our growth. Depreciation expense as a percentage of revenues was 1.0% and 0.9% for the three months ended September 30, 2016 and 2015, respectively.

Amortization. Amortization expense decreased 3% to \$3.3 million for the three months ended September 30, 2016 from \$3.4 million for the three months ended September 30, 2015. The decrease in amortization expense was due to intangible assets related to previous acquisitions becoming fully amortized partially offset by the addition of intangible assets from the 2015 acquisitions. Amortization expense as a percentage of revenues was 2.7% for the three months ended September 30, 2016 and 2.8% for the three months ended September 30, 2015.

Acquisition Costs. Acquisition-related costs were \$0.3 million for the three months ended September 30, 2016 and were \$0.5 million for the three months ended September 30, 2015. Costs were incurred for legal, accounting, tax, investment bank and advisor fees, and valuation services performed by third parties in connection with merger and acquisition-related activities.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$0.9 million was recorded during the three months ended September 30, 2016 which represents the net impact of the fair market value adjustment to the Enlighten revenue and earnings-based contingent consideration liability partially offset by the accretion of the fair value estimate for the revenue and earnings-based contingent consideration related to the acquisitions of Market Street and Enlighten. An adjustment of \$0.1 million was recorded during the three months ended September 30, 2015 for the accretion of the fair value estimate for the revenue and earnings-based contingent consideration related to the acquisition of Zeon and Market Street.

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 26.9% for the three months ended September 30, 2016 from 33.4% for the three months ended September 30, 2015. The decrease in the effective rate for the three months ended September 30, 2016 is primarily due to an additional research and development tax credit related to the current year and a favorable impact related to the early adoption of ASU No. 2016-09. See Note 13, *Recent Accounting Pronouncements*, for additional information regarding the adoption of ASU No. 2016-09.

Nine months ended September 30, 2016 compared to nine months ended September 30, 2015

Revenues. Total revenues increased 8% to \$367.4 million for the nine months ended September 30, 2016 from \$340.0 million for the nine months ended September 30, 2015.

	Financial Results (in thousands)			Explanation for Increases (Decreases) Over Prior Year Period (in thousands)	
	Nine Months Ended September 30,		Total Increase Over Prior Year Period	Increase Attributable to Acquired Companies	Increase (Decrease) Attributable to Base Business
	2016	2015			
Services revenues	\$ 320,587	\$ 301,166	\$ 19,421	\$ 12,601	\$ 6,820
Software and hardware revenues	31,907	27,490	4,417	4,225	192
Reimbursable expenses	14,897	11,315	3,582	3,597	(15)
Total revenues	\$ 367,391	\$ 339,971	\$ 27,420	\$ 20,423	\$ 6,997

Services revenues increased 6% to \$320.6 million for the nine months ended September 30, 2016 from \$301.2 million for the nine months ended September 30, 2015. Services revenues attributable to our base business increased by \$6.8 million and services revenues attributable to acquired companies was \$12.6 million, resulting in a total increase of \$19.4 million.

Software and hardware revenues increased 16% to \$31.9 million for the nine months ended September 30, 2016 from \$27.5 million for the nine months ended September 30, 2015, primarily due to an increase in initial and renewal software license sales. Reimbursable expenses increased 32% to \$14.9 million for the nine months ended September 30, 2016 from \$11.3 million for the nine months ended September 30, 2015. The increase in reimbursable expenses is primarily due to the start up of services projects requiring extensive travel and, in part, the acquisition of Enlighten in which media buy expenses are passed through to customers. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 10% to \$252.4 million for the nine months ended September 30, 2016 from \$228.6 million for the nine months ended September 30, 2015. The increase in cost of revenues is primarily related to costs associated with services revenues which increased 8% to \$210.2 million for the nine months ended September 30, 2016 from \$193.7 million for the nine months ended September 30, 2015 due to an increase in revenue as noted above. Software and hardware costs increased 16% to \$27.3 million for the nine months ended September 30, 2016 from \$23.6 million for the nine months ended September 30, 2015, as a result of the increase in software license sales.

Gross Margin. Gross margin increased 3% to \$115.0 million for the nine months ended September 30, 2016 from \$111.4 million for the nine months ended September 30, 2015. Gross margin as a percentage of revenues decreased to 31.3% for the nine months ended September 30, 2016 from 32.8% for the nine months ended September 30, 2015 primarily due to the increased mix of lower margin software and hardware sales and reimbursable expenses. Services gross margin, excluding reimbursable expenses, increased to \$110.4 million for the nine months ended September 30, 2016 from \$107.4 million for the nine months ended September 30, 2015. Services gross margin, excluding reimbursable expenses, as a percentage of revenues decreased to 34.4% for the nine months ended September 30, 2016 from 35.7% for the nine months ended September 30, 2015, primarily driven by a lower average bill rate with increased volume from offshore projects which carry lower average bill rates. The decline in services gross margin, excluding reimbursable expenses, was also driven by higher salaries and subcontractor costs. The average bill rate for the nine months ended September 30, 2016, was \$129 per hour compared to \$134 per hour for the nine months ended September 30, 2015. This decrease resulted from the impact of a higher mix of lower bill rate offshore resources combined with a 1% reduction in the North American employee bill rate.

Selling, General and Administrative. SG&A expenses increased 6% to \$76.8 million for the nine months ended September 30, 2016 from \$72.6 million for the nine months ended September 30, 2015, primarily due to acquisitions completed during the second half of 2015. SG&A expenses as a percentage of revenues decreased to 20.9% for the nine months ended September 30, 2016 from 21.3% for the nine months ended September 30, 2015 primarily as a result of leverage from a higher revenue base.

Depreciation. Depreciation expense increased 9% to \$3.6 million for the nine months ended September 30, 2016 from \$3.3 million for the nine months ended September 30, 2015. The increase in depreciation expense is primarily attributable to an increase in capital expenditures to support our growth. Depreciation expense as a percentage of revenues was 1.0% for each of the nine months ended September 30, 2016 and 2015.

Amortization. Amortization expense decreased 6% to \$9.9 million for the nine months ended September 30, 2016 from \$10.6 million for the nine months ended September 30, 2015. The decrease in amortization expense was due to intangible assets related to previous acquisitions becoming fully amortized partially offset by the addition of intangible assets from the 2015 acquisitions. Amortization expense as a percentage of revenues was 2.7% for the nine months ended September 30, 2016 and 3.1% for the nine months ended September 30, 2015.

Acquisition Costs. Acquisition-related costs were \$0.7 million for the nine months ended September 30, 2016. Acquisition-related costs were \$0.5 million for the nine months ended September 30, 2015. Costs were incurred for legal, accounting, tax, investment bank and advisor fees, and valuation services performed by third parties in connection with merger and acquisition-related activities.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$1.8 million was recorded during the nine months ended September 30, 2016 which represents the net impact of the fair market value adjustments to the Enlighten revenue and earnings-based contingent consideration liability partially offset by the accretion of the fair value estimate for the revenue and earnings-based contingent consideration related to the acquisition of Zeon, Market Street and Enlighten. An adjustment of \$0.3 million was recorded during the nine months ended September 30, 2015 for the accretion of the fair value estimate for the revenue and earnings-based contingent consideration related to the acquisition of Zeon and Market Street.

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 31.0% for the nine months ended September 30, 2016 from 30.5% for the nine months ended September 30, 2015. The increase in the effective rate is primarily due to an additional research and development tax credit recorded during the nine months ended September 30, 2015 related to the finalization of the Company's 2014 research and development tax assessment. The increase in the effective rate for the nine months ended September 30, 2016 was partially offset by an additional research and development tax credit related to the current year and a favorable impact related to the early adoption of ASU No. 2016-09. See Note 13, *Recent Accounting Pronouncements*, for additional information regarding the adoption of ASU No. 2016-09.

Liquidity and Capital Resources

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

	As of September 30, 2016	As of December 31, 2015
Cash, cash equivalents and investments (1)	\$ 9.3	\$ 8.8
Working capital (including cash and cash equivalents) (2)	\$ 86.2	\$ 83.2
Amounts available under credit facilities	\$ 97.0	\$ 69.0

(1) The balance at September 30, 2016 includes \$7.9 million held by our Chinese subsidiary which is not available to fund domestic operations unless the funds were repatriated. We currently do not plan or foresee a need to repatriate such funds.

(2) Working capital is total current assets less total current liabilities.

Net Cash Provided By Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2016 was \$39.9 million compared to \$26.3 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, the primary components of operating cash flows were net income of \$16.8 million plus non-cash charges of \$22.6 million and working capital reductions of \$0.5 million. The primary components of operating cash flows for the nine months ended September 30, 2015 were net income of \$15.4 million plus non-cash charges of \$22.6 million, offset by working capital investments of \$11.8 million.

Net Cash Used In Investing Activities

During the nine months ended September 30, 2016, we used \$5.3 million to purchase property and equipment, furnish new offices, and develop certain software. We also used \$0.9 million to purchase short-term investments and \$0.3 million for a net working capital settlement related to a 2015 acquisition. During the nine months ended September 30, 2015, we used \$3.3 million for purchases of property and equipment and to develop certain software and \$26.6 million for acquisition purchases.

Net Cash (Used In) Provided By Financing Activities

During the nine months ended September 30, 2016, we drew down \$153.0 million from our line of credit and we received proceeds from sales of stock through the Employee Stock Purchase Plan of \$0.2 million. We repaid \$181.0 million on our line of credit, used \$2.1 million to settle the contingent consideration for the purchase of Zeon, used \$2.5 million to remit taxes withheld as part of a net share settlement of restricted stock vesting and made \$0.2 million in payments for credit facility financing fees. For the nine months ended September 30, 2015, we borrowed \$201.5 million on our line of credit. We realized a tax benefit related to vesting of stock awards and stock option exercises and received proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan of \$1.3 million. We repaid \$194.5 million on our line of credit, used \$2.8 million to repurchase shares of our common stock through the stock repurchase program, used \$3.6 million to remit taxes withheld as part of a net share settlement of restricted stock vesting and made \$0.2 million in payments for credit facility financing fees.

Availability of Funds from Bank Line of Credit Facility

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

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

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

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

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

Stock Repurchase Program

Prior to 2016, our Board of Directors authorized the repurchase of up to \$100.0 million of our common stock. On May 3, 2016, our Board of Directors authorized the expansion of our stock repurchase program by authorizing the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$110.0 million and extended the expiration date of the program from June 30, 2016 to December 31, 2017.

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

Since the program's inception on August 11, 2008, we have repurchased approximately \$84.4 million (9.6 million shares) of our outstanding common stock through September 30, 2016.

Contractual Obligations

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

There were no material changes outside the ordinary course of our business in lease obligations in the first nine months of 2016.

As of September 30, 2016, there was \$28.0 million outstanding under the Credit Agreement as compared to \$56.0 million as of December 31, 2015. The amounts are classified as "Long-term debt" within the Condensed Consolidated Balance Sheets as of September 30, 2016 (unaudited) and December 31, 2015 and will become due and payable no later than the final maturity date of July 31, 2018.

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 \$9.3 million in total cash and cash equivalents reported on the Unaudited Condensed Consolidated Balance Sheet as of September 30, 2016, approximately \$7.9 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, 2015. 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

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

Exchange Rate Sensitivity

We are exposed to market risks associated with changes in foreign currency exchange rates because we generate a portion of our revenues and incur a portion of our expenses in currencies other than the U.S. dollar. As of September 30, 2016, we were exposed to changes in exchange rates between the U.S. dollar and the Canadian dollar, Chinese Yuan, Indian Rupee, British Pound, and Euro. We hedge material cash flow exposures when feasible using forward contracts. These instruments are subject to fluctuations in foreign currency exchange rates and credit risk. Credit risk is managed through careful selection and ongoing evaluation of the financial institutions utilized as counter parties. Refer to Note 11, *Financial Instruments*, in the Notes to Interim Unaudited Condensed Consolidated Financial Statements for further discussion.

Interest Rate Sensitivity

As of September 30, 2016, there was \$28.0 million outstanding and \$97.0 million of available borrowing capacity under our credit facility. Our interest expense will fluctuate as the interest rate for the line of credit floats based, at our option, on the prime rate plus a margin or the one-month LIBOR rate plus a margin. Based on the \$28.0 million outstanding on the line of credit as of September 30, 2016, an increase in the interest rate of 100 basis points would add \$280,000 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 \$9.3 million at September 30, 2016 and \$8.8 million at December 31, 2015. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for 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

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer of the Company, as appropriate, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on that evaluation, the Company's principal executive and principal financial officers have determined that the Company's disclosure controls and procedures were effective.

There was no change in the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the three months ended September 30, 2016, that has materially affected, or is reasonably likely to materially affect, the Company's 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, 2015, as filed with the SEC on March 3, 2016 and available at www.sec.gov. There has been no material change to our risk factors since the filing of such report.

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

Issuer Purchases of Securities

Stock Repurchase Program

Prior to 2016, our Board of Directors authorized the repurchase of up to \$100.0 million of our common stock. On May 3, 2016, our Board of Directors authorized the expansion of our stock repurchase program by authorizing the repurchase of up to an additional \$10.0 million of our common stock for a total repurchase program of \$110.0 million and extended the expiration date of the program from June 30, 2016 to December 31, 2017.

The program could be suspended or discontinued at any time, based on market, economic, or business conditions. The timing and amount of repurchase transactions will be determined by our management based on its evaluation of market conditions, share price, and other factors.

Since the program's inception on August 11, 2008, we have repurchased approximately \$84.4 million (9.6 million shares) of our outstanding common stock through September 30, 2016.

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, 2016	9,553,624	\$ 8.83	9,553,624	\$ 25,641,949
July 1-31, 2016	-	-	-	\$ 25,641,949
August 1-31, 2016	-	-	-	\$ 25,641,949
September 1-30, 2016	-	-	-	\$ 25,641,949
Ending balance as of September 30, 2016	9,553,624	\$ 8.83	9,553,624	

(1) Average price paid per share includes commission.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PERFICIENT, INC.

Date: November 3, 2016

By: /s/ Jeffrey S. Davis
Jeffrey S. Davis
Chief Executive Officer (*Principal Executive Officer*)

Date: November 3, 2016

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, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of September 30, 2016 (Unaudited) and December 31, 2015, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2016 and 2015, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, (iv) Unaudited Condensed Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2016, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, and (vi) the Notes to Interim Unaudited Condensed Consolidated Financial Statements
*	Filed herewith.
**	Included but not to be considered "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section.

CERTIFICATIONS

I, Jeffrey S. Davis, certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 3, 2016

/s/ Jeffrey S. Davis
Jeffrey S. Davis
Chief Executive Officer

CERTIFICATIONS

I, Paul E. Martin, certify that:

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

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: November 3, 2016

/s/ Paul E. Martin
Paul E. Martin,
Chief Financial Officer

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

Pursuant to 18 U.S.C. Sec. 1350 and in connection with the accompanying report on Form 10-Q for the period ended September 30, 2016 that contains financial statements of Perficient, Inc. (the “Company”) filed for such period and that is being filed concurrently with the Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company hereby certify that:

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

Date: November 3, 2016

By: /s/ Jeffrey S. Davis
Jeffrey S. Davis
Chief Executive Officer (*Principal Executive Officer*)

Date: November 3, 2016

By: /s/ Paul E. Martin
Paul E. Martin
Chief Financial Officer (*Principal Financial Officer*)