

PERFICIENT INC
Form 10-Q
May 03, 2012

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 March 31, 2012

OR

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

For the transition period from _____ to _____

Commission file number: 001-15169

PERFICIENT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 30, 2012, there were 31,939,918 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Perficient, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

| | March 31, 2012 | December 31, 2011 |
|--|---|-------------------------|
| | (In thousands, except share information) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 2,654 | \$ 9,732 |
| Accounts receivable, net | 66,092 | 60,892 |
| Prepaid expenses | 1,496 | 1,246 |
| Other current assets | 2,523 | 3,118 |
| Total current assets | 72,765 | 74,988 |
| Property and equipment, net | 3,797 | 3,490 |
| Goodwill | 142,173 | 132,038 |
| Intangible assets, net | 15,047 | 10,128 |
| Other non-current assets | 3,530 | 3,288 |
| Total assets | \$ 237,312 | \$ 223,932 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,440 | \$ 5,029 |
| Other current liabilities | 15,259 | 18,483 |
| Total current liabilities | 19,699 | 23,512 |
| Long-term debt | 6,200 | -- |
| Other non-current liabilities | 1,406 | 1,461 |
| Total liabilities | \$ 27,305 | \$ 24,973 |
| Stockholders' equity: | | |
| Common stock (par value \$.001 per share; 50,000,000 shares authorized and 37,036,738 shares issued and 29,508,195 shares outstanding as of March 31, 2012; 36,217,914 shares issued and 28,742,906 shares outstanding as of December 31, 2011) | \$ 37 | \$ 36 |
| Additional paid-in capital | 257,475 | 248,855 |
| Accumulated other comprehensive loss | (240) | (279) |
| Treasury stock, at cost (7,528,543 shares as of March 31, 2012; 7,475,008 shares as of December 31, 2011) | (55,593) | (54,995) |
| Retained earnings | 8,328 | 5,342 |
| Total stockholders' equity | 210,007 | 198,959 |
| Total liabilities and stockholders' equity | \$ 237,312 | \$ 223,932 |

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|-----------------|
| | 2012 | 2011 |
| (In thousands, except share and per share information) | | |
| Revenues | | |
| Services | \$ 66,167 | \$ 50,210 |
| Software and hardware | 4,614 | 3,376 |
| Reimbursable expenses | 3,917 | 2,659 |
| Total revenues | 74,698 | 56,245 |
| Cost of revenues (exclusive of depreciation and amortization, shown separately below) | | |
| Project personnel costs | 43,358 | 32,998 |
| Software and hardware costs | 3,850 | 2,813 |
| Reimbursable expenses | 3,917 | 2,659 |
| Other project related expenses | 926 | 1,486 |
| Total cost of revenues | 52,051 | 39,956 |
| Gross margin | 22,647 | 16,289 |
| Selling, general and administrative | 14,792 | 11,264 |
| Depreciation | 463 | 325 |
| Amortization | 1,565 | 1,143 |
| Acquisition costs | 701 | 503 |
| Adjustment to fair value of contingent consideration | 171 | 60 |
| Income from operations | 4,955 | 2,994 |
| Net interest income (expense) | (13) | 36 |
| Net other income | 46 | 6 |
| Income before income taxes | 4,988 | 3,036 |
| Provision for income taxes | 2,002 | 1,243 |
| Net income | \$ 2,986 | \$ 1,793 |
| Basic net income per share | \$ 0.10 | \$ 0.07 |
| Diluted net income per share | \$ 0.10 | \$ 0.06 |
| Shares used in computing basic net income per share | 28,555,679 | 27,442,127 |
| Shares used in computing diluted net income per share | 30,044,768 | 28,640,007 |

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|--|---------------------------------|---------|
| | 2012 | 2011 |
| | (In thousands) | |
| Net income | \$2,986 | \$1,793 |
| Other comprehensive income, net of reclassification adjustments: | | |
| Foreign currency translation adjustment | 39 | 33 |
| Net unrealized loss on investments | -- | (13) |
| Comprehensive income | \$3,025 | \$1,813 |

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Condensed Consolidated Statement of Stockholders' Equity
Three Months Ended March 31, 2012
(Unaudited)
(In thousands)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Treasury Stock | Retained Earnings | Total Stockholders' Equity |
|---|---------------------------|---------------------------|----------------------------------|---|-------------------|----------------------|----------------------------------|
| Balance at December 31, 2011 | 28,743 | \$ 36 | \$ 248,855 | \$ (279) | \$ (54,995) | \$ 5,342 | \$ 198,959 |
| Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan | 12 | -- | 30 | -- | -- | -- | 30 |
| Net tax benefit from stock option exercises and restricted stock vesting | -- | -- | 242 | -- | -- | -- | 242 |
| Stock compensation related to restricted stock vesting and retirement savings plan contributions | 114 | -- | 2,206 | -- | -- | -- | 2,206 |
| Purchase of treasury stock and buyback of shares for taxes | (54) | -- | -- | -- | (598) | -- | (598) |
| Issuance of stock for acquisitions | 693 | 1 | 6,142 | -- | -- | -- | 6,143 |
| Net income | -- | -- | -- | -- | -- | 2,986 | 2,986 |
| Foreign currency translation adjustment | -- | -- | -- | 39 | -- | -- | 39 |
| Balance at March 31, 2012 | 29,508 | \$ 37 | \$ 257,475 | \$ (240) | \$ (55,593) | \$ 8,328 | \$ 210,007 |

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2012 | 2011 |
| | (In thousands) | |
| OPERATING ACTIVITIES | | |
| Net income | \$ 2,986 | \$ 1,793 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation | 463 | 325 |
| Amortization | 1,565 | 1,143 |
| Deferred income taxes | 699 | 534 |
| Non-cash stock compensation and retirement savings plan contributions | 2,206 | 2,057 |
| Tax benefit from stock option exercises and restricted stock vesting | (242) | (1,303) |
| Adjustment to fair value of contingent consideration for purchase of business | 171 | 60 |
| Changes in operating assets and liabilities, net of acquisitions: | | |
| Accounts receivable | (1,776) | (339) |
| Other assets | 642 | (675) |
| Accounts payable | (869) | (3,122) |
| Other liabilities | (3,982) | (7,344) |
| Net cash provided by (used in) operating activities | 1,863 | (6,871) |
| INVESTING ACTIVITIES | | |
| Proceeds from maturity of investments | -- | 2,187 |
| Purchase of property and equipment | (355) | (630) |
| Capitalization of software developed for internal use | (42) | (25) |
| Purchase of business and related costs | (14,426) | (289) |
| Net cash provided by (used in) investing activities | (14,823) | 1,243 |
| FINANCING ACTIVITIES | | |
| Proceeds from line of credit | 26,000 | -- |
| Payments on line of credit | (19,800) | -- |
| Tax benefit on stock option exercises and restricted stock vesting | 242 | 1,303 |
| Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan | 30 | 3,406 |
| Purchase of treasury stock | (386) | (2,369) |
| Remittance of taxes withheld as part of a net share settlement of restricted stock vesting | (212) | -- |
| Net cash provided by financing activities | 5,874 | 2,340 |
| Effect of exchange rate on cash and cash equivalents | 8 | (9) |
| Change in cash and cash equivalents | (7,078) | (3,297) |
| Cash and cash equivalents at beginning of period | 9,732 | 12,707 |
| Cash and cash equivalents at end of period | \$ 2,654 | \$ 9,410 |

Supplemental disclosures:

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| | | | | |
|---|----|-------|----|-------|
| Cash paid for income taxes | \$ | 793 | \$ | 1,438 |
| Non-cash activity: | | | | |
| Stock issued for purchase of business | \$ | 6,143 | | -- |
| Estimated initial fair value of contingent consideration for purchase of business | \$ | -- | \$ | 3,399 |

See accompanying notes to interim unaudited condensed consolidated financial statements.

PERFICIENT, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012

1. Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements of Perficient, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States and are presented in accordance with the rules and regulations of the Securities and Exchange Commission ("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, 2011. Operating results for the three months ended March 31, 2012 may not be indicative of the results for the full fiscal year ending December 31, 2012.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

Revenues are primarily derived from professional services provided on a time and materials basis. For time and material contracts, revenues are recognized and billed by multiplying the number of hours expended in the performance of the contract by the established billing rates. For fixed fee projects, revenues are generally recognized using an input method based on the ratio of hours expended to total estimated hours. Amounts invoiced and collected in excess of revenues recognized are classified as deferred revenues. On many projects the Company is also reimbursed for out-of-pocket expenses such as airfare, lodging, and meals. These reimbursements are included as a component of revenues. Revenues from software and hardware sales are generally recorded on a gross basis considering the Company's role as a principal in the transaction. On rare occasions, the Company enters into a transaction where it is not the principal. In these cases, revenue is recorded on a net basis.

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

Revenues are recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists; (2) fees are fixed and determinable; (3) delivery and acceptance have occurred; and (4) collectability is deemed probable. The Company's policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same customer is in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") Subtopic 985-605, Software – Revenue Recognition, ASC Subtopic 605-25, Revenue Recognition – Multiple-Element Arrangements, and ASC Section 605-10-S99 (Staff Accounting Bulletin Topic 13, Revenue Recognition). Specifically, if the Company enters into contracts for the sale of services and software or hardware, then the Company evaluates whether each element should be accounted for separately by considering the following criteria: (1) whether the deliverables have value to the client on a stand-alone basis; and (2) whether delivery or performance of the undelivered item or items is considered probable and substantially in the control of the Company (only if the arrangement includes a general right of return related to the delivered item). Further, for sales of software and services, the Company also evaluates whether the services are essential to the functionality of the software and if it has fair value evidence for each deliverable. If the Company 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 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 day notice is required). The client is responsible for any time and expenses incurred up to the date of cancellation or termination of the contract.

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

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

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

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. In accordance with ASC Topic 350, Intangibles – Goodwill and Other, the Company performs an annual impairment test of goodwill. The Company evaluates goodwill as of October 1 each year and more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Other intangible assets include customer relationships, non-compete arrangements, 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 eleven months to eight 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 Condensed Consolidated Statements of Operations. The Company periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in a lack of recoverability or revised useful life.

Stock-Based Compensation

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

Fair Value of Financial Instruments

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

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

3. Stock-Based Compensation

Stock Award Plans

The Company made various stock option and award grants under the 1999 Stock Option/Stock Issuance Plan prior to May 2009. In April 2009, the Company's stockholders approved the 2009 Long-Term Incentive Plan (the "Incentive Plan"), which had been previously approved by the Company's Board of Directors. The Incentive Plan allows for the granting of various types of stock awards, not to exceed a total of 1.5 million shares, to eligible individuals. The Compensation Committee of the Board of Directors administers the Incentive Plan and determines the terms of all stock awards made under the Incentive Plan.

Stock-based compensation cost recognized for the three months ended March 31, 2012 and 2011 was approximately \$2.2 million and \$2.1 million, respectively, which included \$0.4 million and \$0.3 million of expense for retirement savings plan contributions, respectively. The associated current and future income tax benefits recognized for the three months ended March 31, 2012 and 2011 was approximately \$0.7 million. As of March 31, 2012, there was \$14.1 million of total unrecognized compensation cost related to non-vested share-based awards. This cost is expected to be recognized over a weighted-average period of two years.

Stock option activity for the three months ended March 31, 2012 was as follows (in thousands, except exercise price information):

| | Shares | Range of Exercise Prices | Weighted-Average Exercise Price |
|--|--------|--------------------------|---------------------------------|
| Options outstanding at January 1, 2012 | 358 | \$ 0.03 – 9.19 | \$ 4.61 |
| Options exercised | (9) | 0.03 – 1.15 | 0.29 |
| Options canceled | (1) | 3.10 – 3.10 | 3.10 |
| Options outstanding at March 31, 2012 | 348 | 0.03 – 9.19 | 4.73 |
| Options vested at March 31, 2012 | 348 | \$ 0.03 – 9.19 | \$ 4.73 |

Restricted stock activity for the three months ended March 31, 2012 was as follows (in thousands, except fair value information):

| | Shares | Weighted-Average Grant Date Fair Value |
|--|--------|--|
| Restricted stock awards outstanding at January 1, 2012 | 2,043 | \$ 9.16 |
| Awards granted | 80 | 12.09 |
| Awards vested | (83) | 10.36 |
| Awards forfeited | (40) | 8.41 |
| Restricted stock awards outstanding at March 31, 2012 | 2,000 | \$ 9.24 |

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 March 31, | |
|---|------------------------------|----------|
| | 2012 | 2011 |
| Net income | \$ 2,986 | \$ 1,793 |
| Basic: | | |
| Weighted-average shares of common stock outstanding | 28,556 | 27,442 |
| Shares used in computing basic net income per share | 28,556 | 27,442 |
| Effect of dilutive securities: | | |
| Stock options | 210 | 432 |
| Warrants (1) | -- | 7 |
| Restricted stock subject to vesting | 592 | 625 |

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| | | |
|---|---------|---------|
| Contingently issuable shares (2) | 105 | -- |
| Shares issuable for acquisition consideration (3) | 582 | 134 |
| Shares used in computing diluted net income per share (4) | 30,045 | 28,640 |
| Basic net income per share | \$ 0.10 | \$ 0.07 |
| Diluted net income per share | \$ 0.10 | \$ 0.06 |

- (1) All outstanding warrants expired on December 30, 2011.
- (2) Represents the Company's estimate of shares to be issued to Exervio Consulting, Inc. ("Exervio") pursuant to the Asset Purchase Agreement. Refer to Note 7 for further discussion.
- (3) Represents the shares held in escrow pursuant to the Agreement and Plan of Merger with speakTECH and pursuant to the Asset Purchase Agreements with Exervio, JCB Partners, LLC ("JCB") and PointBridge Solutions, LLC ("PointBridge") as part of the consideration. These shares were not included in the calculation of basic net income per share due to the uncertainty of their ultimate status.
- (4) For the three months ended March 31, 2012, approximately 28,000 shares of restricted stock were excluded from shares used in computing diluted net income per share because they would have had an anti-dilutive effect.

5. Commitments and Contingencies

The Company leases office space and certain equipment under various operating lease agreements. The Company has the option to extend the term of certain lease agreements. Future minimum commitments under these lease agreements as of March 31, 2012 are as follows (in thousands):

| | Operating Leases |
|------------------------------|---------------------|
| 2012 remaining | \$ 2,084 |
| 2013 | 2,692 |
| 2014 | 2,206 |
| 2015 | 1,735 |
| 2016 | 1,628 |
| Thereafter | 1,894 |
| Total minimum lease payments | \$ 12,239 |

6. Balance Sheet Components

| | March 31, 2012 | December 31, 2011 |
|---|-------------------|-------------------------|
| | (in thousands) | |
| Accounts receivable: | | |
| Accounts receivable | \$ 40,379 | \$ 44,438 |
| Unbilled revenues | 26,538 | 17,511 |
| Allowance for doubtful accounts | (825) | (1,057) |
| Total | \$ 66,092 | \$ 60,892 |
| Property and equipment: | | |
| Computer hardware (useful life of 3 years) | \$ 6,033 | \$ 5,710 |
| Furniture and fixtures (useful life of 5 years) | 1,679 | 1,474 |
| Leasehold improvements (useful life of 5 years) | 1,653 | 1,801 |
| Software (useful life of 1 year) | 1,551 | 1,494 |
| Less: Accumulated depreciation | (7,119) | (6,989) |
| Total | \$ 3,797 | \$ 3,490 |
| Other current liabilities: | | |
| Accrued variable compensation | \$ 4,327 | \$ 6,998 |
| Estimated fair value of contingent consideration liability (Note 7) | 2,704 | 2,377 |
| Accrued subcontractor fees | 2,021 | 2,392 |
| Payroll related costs | 2,015 | 2,504 |
| Accrued medical claims expense | 948 | 902 |
| Accrued reimbursable expense | 873 | 651 |
| Deferred revenues | 795 | 1,041 |
| Acquired liabilities | 176 | 239 |
| Other current liabilities | 1,400 | 1,379 |
| Total | \$ 15,259 | \$ 18,483 |

7. Business Combinations

Acquisition of Exervio

On April 1, 2011, the Company acquired substantially all of the assets of Exervio pursuant to the terms of an Asset Purchase Agreement. Exervio was based in Charlotte, North Carolina and was a business and management consulting firm focused on program and project management, process improvement, and data/business analytics. The acquisition of Exervio enhanced the Company's management consulting skills and qualifications, as well as extended the Company's presence in North Carolina and Georgia.

The Company has initially estimated the total allocable purchase price consideration to be \$11.2 million. The initial purchase price estimate is comprised of \$6.5 million in cash paid and \$2.8 million of Company common stock issued at closing, increased by \$1.9 million representing the initial fair value estimate of additional earnings-based contingent consideration, which may be partially realized by the Exervio selling shareholders 12 months after the closing date of the acquisition, and the remainder potentially realized 18 months after the closing date of the acquisition. If the contingency is achieved, 25% of the earnings-based contingent consideration will be paid in cash and 75% will be issued in stock to the Exervio selling shareholders. The contingent consideration is recorded in “Other current liabilities” on the Condensed Consolidated Balance Sheet as of March 31, 2012. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

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

| | | |
|----------------------------|----|-------|
| Acquired tangible assets | \$ | 2.6 |
| Acquired intangible assets | | 4.5 |
| Liabilities assumed | | (1.2) |
| Goodwill | | 5.3 |
| Total purchase price | \$ | 11.2 |

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

The amounts above represent the fair value estimates as of March 31, 2012. Any additional adjustments to these fair value estimates will result in an adjustment to goodwill or income, as applicable, and are expected to be immaterial as the Company finalizes its fair value estimates during the second quarter of 2012.

Acquisition of JCB

On July 1, 2011, the Company acquired substantially all of the assets of JCB pursuant to the terms of an Asset Purchase Agreement. JCB was based in Denver, Colorado and was a business and technology consulting firm focused on enterprise performance management, analytics, and business intelligence solutions, primarily leveraging the IBM Cognos suite of software products. The acquisition of JCB further enhanced the Company’s position in business intelligence and enterprise performance management and increased access to CFO suites, as well as extended the Company’s presence in Denver, Chicago, and Northern and Southern California.

The Company has initially estimated the total allocable purchase price consideration to be \$16.6 million. The initial purchase price estimate is comprised of \$12.5 million in cash paid and \$4.1 million of Company common stock issued at closing. The Company incurred approximately \$0.6 million in transaction costs, which were expensed when incurred.

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

| | | |
|----------------------------|----|-------|
| Acquired tangible assets | \$ | 2.8 |
| Acquired intangible assets | | 3.0 |
| Liabilities assumed | | (1.2) |
| Goodwill | | 12.0 |
| Total purchase price | \$ | 16.6 |

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

The amounts above represent the fair value estimates as of March 31, 2012 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

Acquisition of PointBridge

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

The Company has initially estimated the total allocable purchase price consideration to be \$20.5 million. The initial purchase price estimate is comprised of \$14.4 million in cash paid and \$6.1 million of Company common stock issued at closing. The Company incurred approximately \$0.7 million in transaction costs, which were expensed when incurred.

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

| | | |
|----------------------------|----|-------|
| Acquired tangible assets | \$ | 5.0 |
| Acquired intangible assets | | 6.4 |
| Liabilities assumed | | (1.0) |
| Goodwill | | 10.1 |
| Total purchase price | \$ | 20.5 |

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

The amounts above represent the fair value estimates as of March 31, 2012 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

The results of the PointBridge operations have been included in the Company's consolidated financial statements since the acquisition date.

The amounts of revenue and net income of PointBridge included in the Company's Condensed Consolidated Statements of Operations from the acquisition date to March 31, 2012 are as follows (in thousands):

| | Acquisition Date to March 31, 2012 |
|------------|---|
| Revenues | \$ 3,166 |
| Net income | \$ 219 |

Pro-forma Results of Operations (Unaudited)

The following presents the unaudited pro-forma combined results of operations of the Company with PointBridge for the three months ended March 31, 2012 and Exervio, JCB and PointBridge for the three months ended March 31, 2011, after giving effect to certain pro-forma adjustments related to the amortization of acquired intangible assets and assuming PointBridge was acquired as of the beginning of 2011 and Exervio and JCB were acquired as of the beginning of 2010. These unaudited pro-forma results are presented in compliance with the adoption of Accounting Standards Update ("ASU") 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations, and are not necessarily indicative of the actual consolidated results of operations had the acquisition actually occurred on January 1, 2011 or of future results of operations of the consolidated entities (in thousands):

| | March 31 |
|--|----------|
| | 2012 |
| | 2011 |

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| | | |
|--|----------|----------|
| Revenues | \$76,740 | \$68,511 |
| Net income | \$3,482 | \$2,822 |
| Basic net income per share | \$0.12 | \$0.10 |
| Diluted net income per share | \$0.11 | \$0.09 |
| Shares used in computing basic net income per share | 29,025 | 28,552 |
| Shares used in computing dilute net income per share | 30,342 | 30,052 |

8. Goodwill and Intangible Assets

Goodwill

The changes in the carrying amount of goodwill for the three months ended March 31, 2012 are as follows (in thousands):

| | | |
|--|----|---------|
| Balance at December 31, 2011 | \$ | 132,038 |
| Preliminary purchase price allocations for acquisitions (Note 7) | | 10,122 |
| Purchase accounting adjustments | | 13 |
| Balance at March 31, 2012 | \$ | 142,173 |

Intangible Assets with Definite Lives

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

| | March 31, 2012 | | | December 31, 2011 | | |
|-------------------------------|------------------------|--------------------------|----------------------|------------------------|--------------------------|----------------------|
| | Gross Carrying Amounts | Accumulated Amortization | Net Carrying Amounts | Gross Carrying Amounts | Accumulated Amortization | Net Carrying Amounts |
| Customer relationships | \$ 26,029 | \$ (13,211) | \$ 12,818 | \$ 20,713 | \$ (11,976) | \$ 8,737 |
| Non-compete agreements | 1,341 | (323) | 1,018 | 1,073 | (309) | 764 |
| Customer backlog | 708 | (129) | 579 | -- | -- | -- |
| Trade name | 214 | (116) | 98 | 152 | (84) | 68 |
| Internally developed software | 1,078 | (544) | 534 | 1,036 | (477) | 559 |
| Total | \$ 29,370 | \$ (14,323) | \$ 15,047 | \$ 22,974 | \$ (12,846) | \$ 10,128 |

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

| | |
|-------------------------------|-------------|
| Customer relationships | 2 – 8 years |
| Non-compete agreements | 2 – 5 years |
| Internally developed software | 3 – 5 years |
| Trade name | 1 – 3 years |
| Customer backlog | 11 months |

9. Line of Credit

On May 23, 2011, the Company renewed and extended the term of its Credit Agreement (the "Credit Agreement") with Silicon Valley Bank ("SVB"), U.S. Bank National Association, and Bank of America, N.A. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$50.0 million, subject to a commitment increase of \$25.0 million. The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to \$1.0 million at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. Substantially all of the Company's assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015, thus all outstanding amounts are classified as long-term as of March 31, 2012. Borrowings under the credit facility bear interest at the Company's option of SVB's prime rate (4.00% on March 31, 2012) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.24% on March 31, 2012) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of March 31, 2012, the Company had \$43.8 million of available borrowing capacity. An annual commitment fee of 0.30% is incurred on the unused portion of the line of credit.

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

expenditures of not more than 2.75 to 1.00.

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 (“IRS”) has completed examinations of the Company’s U.S. income tax returns or the statute has passed on years through 2007. As of March 31, 2012, the IRS has proposed no significant adjustments to any of the Company’s tax positions.

Under the provisions of the ASC Subtopic 740-10-25, Income Taxes - Recognition, the Company had no unrecognized tax benefits as of March 31, 2012.

The Company's effective tax rate was 40.1% for the three months ended March 31, 2012 compared to 40.9% for the three months ended March 31, 2011. The decrease in the effective rate is primarily due to certain fixed items being recognized over a larger income base. The difference between the Company's federal statutory rate of 35% and effective tax rate relates primarily to state income taxes, net of the federal benefit, and permanent non-deductible items such as non-deductible executive compensation and 50% of meals and entertainment expenses. As of March 31, 2012, the Company's net current deferred tax asset was \$0.7 million and its net non-current deferred tax asset was \$0.6 million. Generally, deferred tax assets are related to stock compensation, accruals and net operating losses of acquired companies. Net current deferred tax assets are recorded in "Other current assets" and net non-current deferred tax assets are recorded in "Other non-current assets" on the Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011.

11. Recent Accounting Pronouncements

Effective January 1, 2012, the Company adopted ASU 2011-05, Presentation of Comprehensive Income ("ASU 2011-05"). ASU 2011-05 requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, and the second statement would include components of other comprehensive income. This ASU does not change the items that must be reported in other comprehensive income. The adoption of ASU 2011-05 did not impact the accounting for comprehensive income, but did affect the presentation of components of comprehensive income by eliminating the practice of showing these items within the Condensed Consolidated Statement of Stockholders' Equity.

Effective January 1, 2012, the Company adopted ASU 2011-08, Intangibles – Goodwill and Other ("ASU 2011-08"). ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The adoption of ASU 2011-08 did not have a material impact on the Company's interim unaudited condensed consolidated financial statements.

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

Statements made in this Quarterly Report on Form 10-Q, including without limitation this Management's Discussion and Analysis of Financial Condition and Results of Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may sometimes be identified by such words as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. We 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 Securities and Exchange Commission ("SEC") and elsewhere in this Quarterly Report on Form 10-Q. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

Overview

We are an information technology consulting firm serving Forbes Global 2000 and other large enterprise companies with a primary focus on the United States. We help our clients gain competitive advantage by using Internet-based

technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with their customers, suppliers and partners, improve productivity, and reduce information technology costs. We design, build and deliver business-driven technology solutions using third party software products. Our solutions include business analysis, portals and collaboration, business integration, user experience, enterprise content management, customer relationship management, interactive design, enterprise performance management, business process management, business intelligence, eCommerce, mobile platforms, custom applications, and technology platform implementations, among others. Our solutions enable our clients to operate a real-time enterprise that dynamically adapts business processes and the systems that support them to meet the changing demands of an increasingly global, Internet-driven and competitive marketplace.

Services Revenues

Services revenues are derived from professional services that include developing, implementing, integrating, automating and extending business processes, technology infrastructure, and software applications. Most of our projects are performed on a time and materials basis, while a smaller portion of our revenues is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 10% of our services revenues for the three months ended March 31, 2012 compared to 11% for the three months ended March 31, 2011. For time and material projects, revenues are recognized and billed by multiplying the number of hours our professionals expend in the performance of the project by the established billing rates. For fixed fee projects, revenues are generally recognized using an input method based on the ratio of hours expended to total estimated hours. Amounts invoiced and collected in excess of revenues recognized are classified as deferred revenues. On most projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenues. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our clients, the total number of our projects that require travel, and whether our arrangements with our clients provide for the reimbursement of travel and other project related expenses.

Software and Hardware Revenues

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

If we enter into contracts for the sale of services and software or hardware, management evaluates whether each element should be accounted for separately by considering the following criteria: (1) whether the deliverables have value to the client on a stand-alone basis; and (2) whether delivery or performance of the undelivered item or items is considered probable and substantially in our control (only if the arrangement includes a general right of return related to the delivered item). Further, for sales of software and services, management also evaluates whether the services are essential to the functionality of the software and has fair value evidence for each deliverable. If management concludes that the separation criteria are met, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of our multiple element arrangements meet these criteria and are accounted for separately, with the arrangement consideration allocated among the deliverables using vendor specific objective evidence of the selling price. As a result, we generally recognize software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

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

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

Cost of revenues

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

Gross Margins

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

Selling, General, and Administrative Expenses

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

Plans for Growth and Acquisitions

Our goal is to continue to build one of the leading independent information technology consulting firms by expanding our relationships with existing and new clients and through the continuation of our disciplined acquisition strategy. Our future growth plan includes expanding our business with a primary focus on customers in the United States, both organically and through acquisitions. Given the economic conditions during 2008 and 2009 we suspended acquisition activity pending improved visibility into the health of the economy. With the return to growth in 2010 we have resumed our disciplined acquisition strategy as evidenced by our acquisition of Kerdock Consulting, LLC (“Kerdock”) in March 2010, speakTECH in December 2010, Exervio in April 2011, JCB in July 2011, and PointBridge in February 2012. We also intend to further leverage our existing offshore capabilities to support our future growth and provide our clients flexible options for project delivery.

Results of Operations

Three months ended March 31, 2012 compared to three months ended March 31, 2011

Revenues. Total revenues increased 33% to \$74.7 million for the three months ended March 31, 2012 from \$56.2 million for the three months ended March 31, 2011.

| | Financial Results (in thousands) | | | Explanation for Increases Over Prior Year Period (in thousands) | |
|--------------------------------|--|--|--|---|---|
| | For the Three Months Ended March 31, 2012 | For the Three Months Ended March 31, 2011 | Total Increase Over Prior Year Period | Increase Attributable to Acquired Companies* | Increase Attributable to Base Business** |
| Services Revenues | \$66,167 | \$50,210 | \$15,957 | \$10,969 | \$4,988 |
| Software and Hardware Revenues | 4,614 | 3,376 | 1,238 | 970 | 268 |
| Reimbursable Expenses | 3,917 | 2,659 | 1,258 | 361 | 897 |
| Total Revenues | \$74,698 | \$56,245 | \$18,453 | \$12,300 | \$6,153 |

*Defined as companies acquired during 2011 and 2012.

**Defined as businesses owned as of January 1, 2011.

Services revenues increased 32% to \$66.2 million for the three months ended March 31, 2012 from \$50.2 million for the three months ended March 31, 2011. The increase in services revenues is primarily due to the acquisition of Exervio and JCB during 2011 and PointBridge during 2012. Services revenues attributable to our base business increased \$5.0 million while services revenues attributable to acquired companies increased \$11.0 million, resulting in a total increase of \$16.0 million.

Software and hardware revenues increased 37% to \$4.6 million for the three months ended March 31, 2012 from \$3.4 million for the three months ended March 31, 2011 primarily due to an increase in initial software license sales and an increase in the volume of hardware sales during the first quarter of 2012. Reimbursable expenses increased 47% to \$3.9 million for the three months ended March 31, 2012 from \$2.7 million for the three months ended March 31, 2011 as a result of the increase in services revenue. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 30% to \$52.1 million for the three months ended March 31, 2012 from \$40.0 million for the three months ended March 31, 2011. The increase in cost of revenues is primarily related to the increase in revenues, specifically the increase in services. The average number of professionals performing services, including subcontractors, increased to 1,456 for the three months ended March 31, 2012 from 1,153 for the three months ended March 31, 2011.

Costs associated with software and hardware sales increased 37% to \$3.9 million for the three months ended March 31, 2012 from \$2.8 million for the three months ended March 31, 2011, which primarily related to the increase in software and hardware revenues as discussed above.

Gross Margin. Gross margin increased 39% to \$22.6 million for the three months ended March 31, 2012 from \$16.3 million for the three months ended March 31, 2011. Gross margin as a percentage of revenues increased to 30.3% for the three months ended March 31, 2012 from 29.0% for the three months ended March 31, 2011 due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, increased to 33.1% or \$21.9 million for the three months ended March 31, 2012 from 31.3% or \$15.7 million for the three months ended March 31, 2011. The increase in services gross margin is primarily a result of a higher average bill rate. The average bill rate for our professionals, excluding subcontractors, increased to \$117 per hour for the three months ended March 31, 2012 from \$114 per hour for the three months ended March 31, 2011, primarily due to the improved pricing opportunities as the market for our services continues to improve. The average bill rate for the three months ended March 31, 2012 excluding offshore resources was \$127 per hour compared to \$123 per hour for the three months ended March 31, 2011.

Selling, General and Administrative. SG&A expenses increased 31% to \$14.8 million for the three months ended March 31, 2012 from \$11.3 million for the three months ended March 31, 2011. SG&A expenses, as a percentage of revenues, decreased slightly to 19.8% for the three months ended March 31, 2012 from 20.0% for the three months ended March 31, 2011. Stock compensation and general and administrative salaries decreased as a percentage of revenues while sales-related costs increased as a percentage of revenues compared to the prior year comparable period. Stock compensation and general and administrative salaries decreased as a percentage of revenues due to these costs increasing at a slower rate than the increase in revenues as a result of the acquisitions. Sales-related costs increased as a percentage of revenues primarily due to the increased investment in our sales capacity.

Depreciation. Depreciation expense increased 43% to \$0.5 million for the three months ended March 31, 2012 from \$0.3 million for the three months ended March 31, 2011. The increase in depreciation expense is mainly attributable to the addition of depreciation related to fixed assets from acquisitions during 2011 and 2012. Depreciation expense as a percentage of revenues was 0.6% for the three months ended March 31, 2012 and 2011.

Amortization. Amortization expense increased 37% to \$1.6 million for the three months ended March 31, 2012 from \$1.1 million for the three months ended March 31, 2011. The increase in amortization expense is due to the addition of amortization related to acquired intangible assets during 2011 and 2012.

Acquisition Costs. Acquisition-related costs increased 39% to \$0.7 million for the three months ended March 31, 2012 from \$0.5 million for the three months ended March 31, 2011. The acquisition-related costs incurred during the first quarter of 2012 are related to the acquisition of PointBridge, while the acquisition-related costs incurred during the first quarter of 2011 are related to the acquisition of Exervio. Acquisition-related costs were incurred for legal, accounting, and valuation services performed by third parties.

Adjustment to Fair Value of Contingent Consideration. An adjustment of \$0.2 million was made during the three months ended March 31, 2012 for the accretion of the fair value estimate for the earnings-based contingent consideration related to the Exervio acquisition. The adjustment made during the three months ended March 31, 2011 related to the Kerdock and speakTECH acquisitions.

Provision for Income Taxes. We provide for federal, state and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate decreased to 40.1% for the three months ended March 31,

2012 from 40.9% for the three months ended March 31, 2011 due mainly to certain fixed items being recognized over a larger income base.

Liquidity and Capital Resources

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

| | As of March 31, 2012 | As of December 31, 2011 |
|---|----------------------------|----------------------------------|
| Cash, cash equivalents and investments | \$ 2.7 | \$ 9.7 |
| Working capital (including cash and cash equivalents) | \$ 53.1 | \$ 51.5 |
| Amounts available under credit facilities | \$ 43.8 | \$ 50.0 |

Net Cash Provided By (Used In) Operating Activities

Net cash provided by operating activities for the three months ended March 31, 2012 was \$1.9 million compared to net cash used in operating activities of \$6.9 million for the three months ended March 31, 2011. For the three months ended March 31, 2012, the primary components of operating cash flows were net income of \$3.0 million plus non-cash charges of \$4.9 million, offset by investments in working capital of \$6.0 million. The primary components of operating cash flows for the three months ended March 31, 2011 were net income of \$1.8 million plus non-cash charges of \$2.8 million, offset by investments in working capital of \$11.5 million. The increase in cash resulting from operating activities is primarily related to the change in accounts payable and other liabilities. During the first quarter of 2011 there was a higher amount of accrued software costs and higher variable compensation liabilities paid out compared to the first quarter of 2012. Our days sales outstanding as of March 31, 2012 increased to 78 days from 76 days at March 31, 2011.

Net Cash Provided by (Used In) Investing Activities

During the three months ended March 31, 2012, we used \$14.4 million for acquisition-related costs and \$0.4 million on property and equipment and to develop certain software. During the three months ended March 31, 2011, we used \$0.3 million for acquisition-related costs and \$0.6 million on leasehold improvements and to develop certain software, offset by \$2.2 million in proceeds from the maturity of investments.

Net Cash Provided By Financing Activities

During the three months ended March 31, 2012, we received proceeds of \$26.0 million from our line of credit and we realized a tax benefit related to vesting of stock awards and stock option exercises plus proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan of \$0.3 million. We made payments of \$19.8 million on our line of credit, used \$0.4 million to repurchase shares of our common stock through the stock repurchase program and \$0.2 million to remit taxes withheld as part of a net share settlement of restricted stock vesting. For the three months ended March 31, 2011, we received proceeds of \$3.4 million from exercises of stock options and sales of stock through our Employee Stock Purchase Plan and we realized a tax benefit of \$1.3 million related to vesting of stock awards and stock option exercises. We used \$2.4 million to repurchase shares of our common stock through the stock repurchase program.

Availability of Funds from Bank Line of Credit Facility

On May 23, 2011, we renewed and extended the term of our Credit Agreement with SVB, U.S. Bank National Association, and Bank of America, N.A. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$50.0 million, subject to a commitment increase of \$25.0 million. The Credit Agreement also allows for the issuance of letters of credit in the aggregate amount of up to \$1.0 million at any one time; outstanding letters of credit reduce the credit available for revolving credit borrowings. Substantially all of our assets are pledged to secure the credit facility.

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015, thus all outstanding amounts are classified as long-term as of March 31, 2012. Borrowings under the credit facility bear interest at our option of SVB's prime rate (4.00% on March 31, 2012) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.24% on March 31, 2012) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of March 31, 2012, we had \$43.8 million of available borrowing capacity. We incur an annual commitment fee of 0.30% on the unused

portion of the line of credit.

As of March 31, 2012, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months.

Stock Repurchase Program

Prior to 2012, our Board of Directors authorized the repurchase of up to \$60.0 million of our common stock. The repurchase program expires June 30, 2012. On May 1, 2012, our Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock and extended the program to December 31, 2013.

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

Since the program's inception on August 11, 2008, we have repurchased approximately \$54.4 million of our outstanding common stock through March 31, 2012.

Lease Obligations

There were no material changes outside the ordinary course of our business in lease obligations or other contractual obligations in the first three months of 2012.

Conclusion

Of the total cash and cash equivalents reported on the condensed consolidated balance sheet as of March 31, 2012 of \$2.7 million, approximately \$2.1 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 twelve months.

Critical Accounting Policies

Our accounting policies are fully described in Note 2, Summary of Significant Accounting Policies, to our Consolidated Financial Statements in our 2011 Annual Report on Form 10-K. We believe our most critical accounting policies include revenue recognition, accounting for goodwill and intangible assets, purchase accounting, accounting for stock-based compensation, and income taxes.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Exchange Rate Sensitivity

We are exposed to market risks associated with changes in foreign currency exchange rates because we generate a portion of our revenues and incur a portion of our expenses in currencies other than the U.S. dollar. As of March 31, 2012, we were exposed to changes in exchange rates between the U.S. dollar and the Canadian dollar, between the U.S. dollar and the Chinese Yuan, and between the U.S. dollar and the Indian Rupee. We have not hedged foreign currency exposures related to transactions denominated in currencies other than U.S. dollars. Our exposure to foreign currency risk is not significant.

Interest Rate Sensitivity

As of March 31, 2012, there was \$6.2 million outstanding and \$43.8 million of available borrowing capacity on our line of credit. Our interest expense will fluctuate as the interest rate for the line of credit floats based, at our option, on the SVB's prime rate plus a margin or the one-month LIBOR rate plus a margin. Based on the \$6.2 million outstanding on the line of credit as of March 31, 2012, an increase in the interest rate of 100 basis points would add \$62,000 of interest expense per year, which is not considered material to our financial position or results of operations.

We had unrestricted cash, cash equivalents, and investments totaling \$2.7 million at March 31, 2012 and \$9.7 million at December 31, 2011. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

There was no change in our internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the three months ended March 31, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

In evaluating all forward-looking statements, you should specifically consider various risk factors that may cause actual results to vary from those contained in the forward-looking statements. Our risk factors are included in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on March 1, 2012 and available at www.sec.gov. There have been no material changes to these risk factors since the filing of our Form 10-K.

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

Unregistered Sales of Securities

On February 8, 2012, we acquired PointBridge. As part of the initial purchase price paid in this acquisition we issued unregistered shares of our common stock to the interest holders of PointBridge. The aggregate initial purchase price paid in this transaction was approximately \$20.6 million, which consisted of approximately \$14.4 million in cash and 692,909 unregistered shares of our common stock. We relied on Section 4(2) of the Securities Act of 1933, as amended, as the basis for exemption from registration. These shares were issued to PointBridge in a privately negotiated transaction and not pursuant to a public solicitation.

Issuer Purchases of Securities

Prior to 2012, our Board of Directors authorized the repurchase of up to \$60.0 million of our common stock. The repurchase program expires June 30, 2012. On May 1, 2012, our Board of Directors authorized the repurchase of up to an additional \$10.0 million of our common stock and extended the program to December 31, 2013. 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 \$54.4 million of our outstanding common stock through March 31, 2012.

| 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 December 31, 2011 | 7,367,567 | \$ 7.33 | 7,367,567 | \$ 6,004,112 |
| January 1-31, 2012 | 35,800 | 10.67 | 35,800 | \$ 5,622,172 |

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| | | | | |
|-------------------------------------|-----------|---------|-----------|--------------|
| February 1-29, 2012 | 400 | 11.02 | 400 | \$ 5,617,764 |
| March 1-31, 2012 | -- | -- | -- | \$ 5,617,764 |
| Ending Balance as of March 31, 2012 | 7,403,767 | \$ 7.35 | 7,403,767 | |

(1) Average price paid per share includes commission.

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: May 3, 2012

By:

/s/ Jeffrey S. Davis

Jeffrey S. Davis

Chief Executive Officer (Principal Executive Officer)

Date: May 3, 2012

By:

/s/ Paul E. Martin

Paul E. Martin

Chief Financial Officer (Principal Financial Officer)

EXHIBITS INDEX

Exhibit

Number Description

| | |
|--------|---|
| 3.1 | Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Form 8-A (File No. 000-51167) filed with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934 on February 15, 2005 and incorporated herein by reference |
| 3.3 | Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on form S-8 (File No. 333-130624) filed on December 22, 2005 and incorporated herein by reference |
| 3.4 | Bylaws of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our current Report on Form 8-K (File No. 001-15169) filed November 9, 2007 and incorporated herein by reference |
| 4.1 | Specimen Certificate for shares of Perficient, Inc. common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our Quarterly Report on Form 10-Q (File No. 001-15169) filed May 7, 2009 and incorporated herein by reference |
| 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 March 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of March 31, 2012 (Unaudited) and December 31, 2011, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2012 and 2011, (iii) Condensed Consolidated Statement of Comprehensive Income (Unaudited) for the Three Months Ended March 31, 2012 and 2011, (iv) Condensed Consolidated Statement of Shareholders' Equity (Unaudited) for the three months ended March 31, 2012, (v) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2012 and 2011, and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements |

* Filed herewith.

** Included but not to be considered "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

