

Edgar Filing: PERFICIENT INC - Form 10-Q

PERFICIENT INC
Form 10-Q
August 03, 2017
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 June 30, 2017

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, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Edgar Filing: PERFICIENT INC - Form 10-Q

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 28, 2017, there were 35,117,446 shares of Common Stock outstanding.

TABLE OF CONTENTS

Part I. Financial Information	1
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016	2
Unaudited Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2017 and 2016	3
Unaudited Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016	4
Unaudited Condensed Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2017	5
Unaudited Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016	6
Notes to Interim Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures about Market Risk	24
Item 4. Controls and Procedures	24
Part II. Other Information	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 5. Other Information	25
Item 6. Exhibits	25
Signatures	26

PART I. FINANCIAL INFORMATION

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 uncertainties resulting from changes to policies and laws following the U.S. elections in November 2016;
- (3) 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. changes to immigration policies;
 - g. obtaining favorable pricing to reflect services provided;
 - h. adapting to changes in technologies and offerings;
 - i. risk of loss of one or more significant software vendors;
 - j. making appropriate estimates and assumptions in connection with preparing our consolidated financial statements;
 - k. maintaining effective internal controls; and
 - l. changes to tax levels, audits, investigations, tax laws or their interpretation;
- (4) legal liabilities, including intellectual property protection and infringement or the disclosure of personally identifiable information;
- (5) risks associated with managing growth organically and through acquisitions; and
- (6) 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, 2016 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.

1

Item 1. Financial Statements

Perficient, Inc.

Condensed Consolidated Balance Sheets

	June 30, 2017 (unaudited)	December 31, 2016 (In thousands, except share and per share information)
ASSETS		
Current assets:		
Cash and cash equivalents	\$5,692	\$10,113
Accounts receivable, net	100,624	103,702
Prepaid expenses	4,028	3,353
Other current assets	3,051	5,331
Total current assets	113,395	122,499
Property and equipment, net	8,301	8,888
Goodwill	304,456	275,205
Intangible assets, net	59,041	45,115
Other non-current assets	6,132	4,869
Total assets	\$491,325	\$456,576
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$12,044	\$18,416
Other current liabilities	31,998	27,637
Total current liabilities	44,042	46,053
Long-term debt	68,000	32,000
Other non-current liabilities	19,807	19,058
Total liabilities	\$131,849	\$97,111
Stockholders' equity:		
Common stock (par value \$0.001 per share; 100,000,000 shares authorized, 46,976,898 shares issued and 33,607,808 shares outstanding as of June 30, 2017; 50,000,000 shares authorized, 45,895,086 shares issued and 33,865,688 shares outstanding as of December 31, 2016)	\$47	\$46
Additional paid-in capital	396,801	379,094
Accumulated other comprehensive loss	(2,160)	(2,743)
Treasury stock, at cost (13,369,090 shares as of June 30, 2017; 12,029,398 shares as of December 31, 2016)	(149,841)	(126,442)
Retained earnings	114,629	109,510
Total stockholders' equity	359,476	359,465
Total liabilities and stockholders' equity	\$491,325	\$456,576

See accompanying notes to interim unaudited condensed consolidated financial statements.

Edgar Filing: PERFICIENT INC - Form 10-Q

Perficient, Inc.
Unaudited Condensed Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share information)			
Revenues				
Services	\$104,794	\$107,882	\$205,681	\$217,629
Software and hardware	9,270	11,247	16,269	20,723
Reimbursable expenses	2,962	5,267	6,096	9,886
Total revenues	117,026	124,396	228,046	248,238
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Cost of services	66,946	71,067	132,792	142,653
Software and hardware costs	7,727	9,742	13,692	17,155
Reimbursable expenses	2,962	5,267	6,096	9,886
Total cost of revenues	77,635	86,076	152,580	169,694
Gross margin	39,391	38,320	75,466	78,544
Selling, general and administrative	26,128	25,590	51,812	52,305
Depreciation	1,205	1,214	2,464	2,407
Amortization	3,537	3,306	7,162	6,671
Acquisition costs	893	162	1,383	405
Adjustment to fair value of contingent consideration	(597)	(1,189)	(439)	(952)
Income from operations	8,225	9,237	13,084	17,708
Net interest expense	657	467	1,004	987
Net other (income) expense	(51)	(97)	(69)	5
Income before income taxes	7,619	8,867	12,149	16,716
Provision for income taxes	5,210	3,052	7,030	5,495
Net income	\$2,409	\$5,815	\$5,119	\$11,221
Basic net income per share	\$0.07	\$0.17	\$0.15	\$0.33
Diluted net income per share	\$0.07	\$0.17	\$0.15	\$0.32
Shares used in computing basic net income per share	32,942	33,994	33,161	33,953
Shares used in computing diluted net income per share	33,747	34,843	34,080	34,891

See accompanying notes to interim unaudited condensed consolidated financial statements.

Edgar Filing: PERFICIENT INC - Form 10-Q

Perficient, Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Net income	\$2,409	\$5,815	\$5,119	\$11,221
Other comprehensive income (loss):				
Foreign currency translation adjustment	267	(372)	583	(180)
Comprehensive income	\$2,676	\$5,443	\$5,702	\$11,041

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.

Unaudited Condensed Consolidated Statement of Stockholders' Equity

Six Months Ended June 30, 2017

(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, 2016	33,866	\$ 46	\$379,094	\$ (2,743)	\$(126,442)	\$109,510	\$ 359,465
Proceeds from the sales of stock through the Employee Stock Purchase Plan	5	--	91	--	--	--	91
Stock compensation related to restricted stock vesting and retirement savings plan contributions	392	--	7,095	--	--	--	7,095
Purchases of treasury stock and buyback of shares for taxes	(1,339)	--	--	--	(23,399)	--	(23,399)
Issuance of stock in conjunction with acquisitions including stock attributed to future compensation	684	1	10,521	--	--	--	10,522
Net income	--	--	--	--	--	5,119	5,119
Foreign currency translation adjustment	--	--	--	583	--	--	583
Balance at June 30, 2017	33,608	\$ 47	\$396,801	\$ (2,160)	\$(149,841)	\$114,629	\$ 359,476

See accompanying notes to interim unaudited condensed consolidated financial statements.

Edgar Filing: PERFICIENT INC - Form 10-Q

Perficient, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$5,119	\$11,221
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	2,464	2,407
Amortization	7,162	6,671
Deferred income taxes	2,034	610
Non-cash stock compensation and retirement savings plan contributions	7,095	7,314
Adjustment to fair value of contingent consideration for purchase of business	(439)	(952)
Write-off of unamortized credit facility fees	246	-
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	8,653	10,025
Other assets	2,901	3,377
Accounts payable	(6,372)	(3,981)
Other liabilities	(3,983)	(7,304)
Net cash provided by operating activities	24,880	29,388
INVESTING ACTIVITIES		
Purchase of property and equipment	(2,112)	(2,356)
Capitalization of internally developed software costs	(585)	(1,231)
Purchase of businesses, net of cash acquired	(37,886)	(277)
Net cash used in investing activities	(40,583)	(3,864)
FINANCING ACTIVITIES		
Proceeds from line of credit	154,000	104,000
Payments on line of credit	(118,000)	(124,000)
Payments for credit facility financing fees	(355)	(194)
Payment of contingent consideration for purchase of business	(1,344)	(2,144)
Proceeds from the sales of stock through the Employee Stock Purchase Plan	91	105
Purchases of treasury stock	(20,912)	-
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(2,487)	(2,427)
Net cash provided by (used in) financing activities	10,993	(24,660)
Effect of exchange rate on cash and cash equivalents	289	(185)
Change in cash and cash equivalents	(4,421)	679
Cash and cash equivalents at beginning of period	10,113	8,811
Cash and cash equivalents at end of period	\$5,692	\$9,490
Supplemental disclosures:		
Cash paid for income taxes	\$1,202	\$1,121
Cash paid for interest	\$714	\$860
Non-cash activity:		
Stock issued for purchase of business (including settlement of contingent consideration)	\$9,429	\$96
Stock surrendered by Zeon in conjunction with net working capital settlement	\$-	\$1,499

Edgar Filing: PERFICIENT INC - Form 10-Q

Liability incurred for purchase of property, plant and equipment	\$-	\$2,506
--	-----	---------

See accompanying notes to interim unaudited condensed consolidated financial statements.

6

PERFICIENT, INC.

NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2017

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 ("U.S. GAAP") 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 note 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, 2016. Operating results for the three and six months ended June 30, 2017, respectively, may not be indicative of the results for the full fiscal year ending December 31, 2017.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 recognized when earned and recorded 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. The Company 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.

7

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. 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 fiscal 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

The fair value of restricted stock awards is based on the value of the Company's common stock on the date of the grant. 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, which is generally three years. 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.

Stock Award Plans

The Company's Second Amended and Restated Perficient, Inc. 2012 Long Term Incentive Plan (as amended, the "Incentive Plan") allows for the granting of various types of stock awards 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. The Incentive Plan was increased by 2.0 million shares on June 14, 2017 after the Company's stockholders approved the increase at the Company's 2017 annual meeting of stockholders. Following the increase, the Company may issue stock awards of up to 7.0 million shares of Common Stock pursuant to the Incentive Plan. As of June 30, 2017, there were 3.3 million shares of Common Stock available for issuance under the Incentive Plan.

Stock-based compensation cost recognized for the three and six months ended June 30, 2017 was approximately \$3.6 million and \$7.3 million, respectively, which included \$0.6 million and \$1.3 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.1 million and \$2.3 million for the three and six months ended June 30, 2017, respectively. Stock-based compensation cost recognized for the three and six months ended June 30, 2016 was approximately \$3.7 million and \$7.4 million, respectively, which included \$0.6 and \$1.3 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.2 million and \$2.3 million for the three and six months ended June 30, 2016, respectively. As of June 30, 2017, there was \$17.9 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.

Edgar Filing: PERFICIENT INC - Form 10-Q

Restricted stock activity for the six months ended June 30, 2017 was as follows (shares in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at December 31, 2016	1,403	\$ 17.52
Awards granted	379	18.31
Awards vested	(324)	19.92
Awards forfeited	(94)	16.40
Restricted stock awards outstanding at June 30, 2017	1,364	\$ 17.26

8

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		Six Months Ended	
	Ended June 30, 2017	2016	June 30, 2017	2016
Net income	\$2,409	\$5,815	\$5,119	\$11,221
Basic:				
Weighted-average shares of common stock outstanding	32,942	33,994	33,161	33,953
Shares used in computing basic net income per share	32,942	33,994	33,161	33,953
Effect of dilutive securities:				
Restricted stock subject to vesting	262	373	393	416
Contingently issuable shares (1)	-	-	-	4
Shares issuable for acquisition consideration (2)	543	476	526	518
Shares used in computing diluted net income per share	33,747	34,843	34,080	34,891
Basic net income per share	\$0.07	\$0.17	\$0.15	\$0.33
Diluted net income per share	\$0.07	\$0.17	\$0.15	\$0.32
Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share	228	-	175	1

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

For the three and six months ended June 30, 2017, 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 Asset Purchase Agreement with The Pup Group, Inc. d/b/a Enlighten ("Enlighten"); (iv) the Asset Purchase Agreement with RAS & Associates, LLC ("RAS"); and (v) the Asset Purchase Agreement with Clarity Consulting, Inc. and Truth Labs, LLC. (together, "Clarity"), as part of the consideration. For the three and six months ended June 30, 2016, this represents the shares held in escrow pursuant to: (i) the Asset Purchase Agreement with 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 Enlighten, 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 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 \$0.8 million in "Other current liabilities" in the Condensed Consolidated Balance Sheet as of June 30, 2017 (unaudited).

Edgar Filing: PERFICIENT INC - Form 10-Q

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 June 30, 2017 were as follows (in thousands):

	Operating Leases
2017 remaining	\$ 3,282
2018	6,131
2019	5,733
2020	5,436
2021	3,817
Thereafter	4,013
Total minimum lease payments	\$ 28,412

Edgar Filing: PERFICIENT INC - Form 10-Q

Rent expense for the three and six months ended June 30, 2017 was \$2.0 million and \$3.9 million, respectively. Rent expense for the three and six months ended June 30, 2016 was \$1.8 million and \$3.7 million, respectively.

6. Balance Sheet Components

	June 30, 2017	December 31, 2016	
(in thousands)			
Accounts receivable:			
Accounts receivable	\$65,295	\$80,461	
Unbilled revenues	36,400	24,518	
Allowance for doubtful accounts	(1,071)	(1,277)	
Total	\$100,624	\$103,702	
Property and equipment:			
Computer hardware (useful life of 3 years)	\$13,036	\$12,191	
Furniture and fixtures (useful life of 5 years)	3,507	3,306	
Leasehold improvements (useful life of 5 years)	2,221	1,958	
Software (useful life of 1 to 7 years)	5,510	9,186	
Less: Accumulated depreciation	(15,973)	(17,753)	
Total	\$8,301	\$8,888	
Other current liabilities:			
Accrued variable compensation	\$10,623	\$10,979	
Deferred revenue	3,762	3,138	
Payroll related costs	3,071	2,607	
Accrued subcontractor fees	612	1,049	
Accrued medical claims expense	1,883	1,859	
Professional fees	774	420	
Estimated fair value of contingent consideration liability (1)	7,244	3,384	
Net working capital settlements	-	62	
Other current liabilities	4,029	4,139	
Total	\$31,998	\$27,637	
Other non-current liabilities:			
Deferred compensation liability	\$3,973	\$3,662	
Deferred income taxes	13,976	12,853	
Other non-current liabilities	1,858	2,543	
Total	\$19,807	\$19,058	

As of June 30, 2017, represents the fair value estimate of additional earnings-based contingent consideration that may be realized by Bluetube, LLC ("Bluetube"), RAS and Clarity twelve months after the applicable acquisition. (1)As of December 31, 2016, represents the fair value estimate of additional earnings-based contingent consideration that may be realized by the Market Street selling shareholders, Enlighten and Bluetube twelve months after the applicable acquisition.

7. Business Combinations

2016 AcquisitionAcquisition of Bluetube

On October 12, 2016, the Company acquired substantially all of the assets of Bluetube pursuant to the terms of an Asset Purchase Agreement. Bluetube was a digital marketing agency specializing in the development, implementation, integration and support of custom website and enterprise mobile solutions. The acquisition of Bluetube enhanced and expanded the Company's digital strategy, creative services, mobile and marketing expertise.

The Company's total allocable purchase price consideration was \$9.1 million. The purchase price was comprised of \$7.2 million in cash paid increased by \$1.9 million representing the initial fair value estimate of additional revenue and earnings-based contingent consideration, which may be realized by Bluetube twelve months after the closing date of the acquisition with a maximum cash payout of \$2.7 million. As of June 30, 2017, the Company anticipates Bluetube will achieve its maximum contingent consideration payout. As a result, the Company recorded a pre-tax adjustment of \$0.7 million in "Adjustment to fair value of contingent consideration" on the Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017. 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	\$0.9
Acquired intangible assets	3.1
Liabilities assumed	(0.6)
Goodwill	5.7
Total purchase price	\$9.1

The amount of goodwill expected to be deductible for tax purposes, excluding contingent consideration, is \$4.0 million.

The following table presents details of the intangible assets acquired during the year ended December 31, 2016 (dollars in millions):

	Weighted Average Useful Life	Estimated Useful Life	Aggregate Acquisitions
Customer relationships	5 years	5 years	\$ 2.5
Customer backlog	6 months	6 months	0.4
Non-compete agreements	5 years	5 years	0.2
Trade name	1 year	1 year	-
Total acquired intangible assets			\$ 3.1

2017 AcquisitionAcquisition of RAS

On January 3, 2017, the Company acquired substantially all of the assets of RAS through a wholly-owned subsidiary of the Company, pursuant to the terms of an Asset Purchase Agreement. The acquisition of RAS expands the Company's expertise in management consulting offerings with additional strategy, operations and business process optimization.

The Company's total allocable purchase price consideration was \$10.4 million. The purchase price was comprised of \$7.1 million in cash paid and \$2.1 million in Company common stock issued at closing reduced by \$0.6 million for a net working capital settlement due from the seller. The purchase price also included \$1.8 million representing the initial fair value estimate of additional revenue and earnings-based contingent consideration, which may be realized by the seller twelve months after the closing date of the acquisition with a maximum cash payout of \$3.8 million. As of June 30, 2017, the Company's best estimate of the fair value of the contingent consideration was \$0.5 million. As a result, the Company recorded a pre-tax adjustment of \$1.3 million, which was recorded in "Adjustment to fair value of contingent consideration" on the Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017. 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	\$0.9
Acquired intangible assets	5.1
Liabilities assumed	(1.0)
Goodwill	5.4
Total purchase price	\$10.4

The amount of goodwill expected to be deductible for tax purposes, excluding contingent consideration, is \$3.7 million.

Acquisition of Clarity

On June 22, 2017, the Company acquired substantially all of the assets of Clarity, pursuant to the terms of an Asset Purchase Agreement. The acquisition of Clarity builds the Company's Microsoft offerings and qualifications and increases the Company's presence in the North Central region and, specifically, the Chicago market.

The Company has initially estimated the total allocable purchase price consideration to be \$41.5 million. The purchase price was comprised of \$30.7 million in cash paid and \$7.3 million in Company common stock issued at closing reduced by \$0.6 million for an estimated net working settlement due from the seller. The purchase price also included \$4.1 million representing the initial fair value estimate of additional revenue and earnings-based contingent consideration, which may be realized by the seller twelve months after the closing date of the acquisition with a maximum cash payout of \$9.2 million. The Company incurred approximately \$0.9 million in transaction costs, which were expensed when incurred.

As part of the consideration paid for the acquisition of Clarity, the Company issued common stock to owners of Clarity who are continuing with the Company with restrictions that limit the ability to sell the common stock and that lapse over a certain period, or over an accelerated period upon meeting specified employment milestones. As such, \$0.9 million of the common stock value was attributed to future compensation and recorded as an asset within "Other current assets" and "Other non-current assets" in the Condensed Consolidated Balance Sheet as of June 30, 2017

(unaudited), to be amortized over the requisite service period.

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	\$6.3
Acquired intangible assets	15.4
Liabilities assumed	(3.8)
Goodwill	23.6
Total purchase price	\$41.5

The amount of goodwill expected to be deductible for tax purposes, excluding contingent consideration, is \$21.3 million.

12

The above purchase accounting estimates are pending finalization of the intangible assets and contingent consideration valuation and 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 six months ended June 30, 2017 (dollars in millions):

Weighted Average Useful Life	Estimated Useful Life	Aggregate Acquisitions
Customer relationships	6 years 6 years	\$ 17.3
Customer backlog	1 year 3 months - 1 year	1.8
Non-compete agreements	5 years 2 - 5 years	0.7
Trade name	1 year 1 year	0.1
Internally developed software	4 years 4 years	0.6
Total acquired intangible assets		\$ 20.5

The results of the 2016 and 2017 acquisitions' operations have been included in the Company's interim unaudited condensed consolidated financial statements since the respective acquisition date.

The aggregate amounts of revenue and net income of the RAS and Clarity acquisitions in the Unaudited Condensed Consolidated Statements of Operations from the acquisition date to June 30, 2017 are as follows (in thousands):

	Acquisition Date to June 30, 2017
Revenues	\$ 5,550
Net income	\$ 226

Pro-forma Results of Operations

The following presents the unaudited pro-forma combined results of operations of the Company with the 2017 acquisitions for the six months ended June 30, 2017 and the 2016 and 2017 acquisitions for the six months ended June 30, 2016, after giving effect to certain pro-forma adjustments and assuming the 2017 acquisitions were acquired as of the beginning of 2016 and assuming the 2016 acquisition was acquired as of the beginning of 2015.

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, 2016 or January 1, 2015 or of future results of operations of the consolidated entities (in thousands except per share data):

	Six Months Ended June 30,	
	2017	2016
Revenues	\$243,220	\$267,658
Net income	\$7,688	\$11,436
Basic net income per share	\$0.23	\$0.33
Diluted net income per share	\$0.22	\$0.32
Shares used in computing basic net income per share	33,691	34,201

Shares used in computing diluted net income per share 34,596 35,576

13

8. Goodwill and Intangible Assets

Goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed, in a business combination. In accordance with ASC Topic 350, Intangibles – Goodwill and Other, the Company performs an annual impairment 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 June 30, 2017.

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 six months ended June 30, 2017 are as follows (in thousands):

Balance at December 31, 2016	\$275,205
Preliminary purchase price allocations for acquisitions	29,030
Effect of foreign currency translation adjustments	221
Balance at June 30, 2017	\$304,456

Intangible Assets with Definite Lives

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

	June 30, 2017			December 31, 2016		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer relationships	\$75,857	\$ (26,603)	\$49,254	\$67,648	\$ (30,458)	\$37,190
Non-compete agreements	1,586	(546)	1,040	1,018	(557)	461
Customer backlog	1,640	(41)	1,599	390	(195)	195
Trade name	170	(40)	130	30	(7)	23
Internally developed software	11,283	(4,265)	7,018	11,342	(4,096)	7,246
Total	\$90,536	\$ (31,495)	\$59,041	\$80,428	\$ (35,313)	\$45,115

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

Customer relationships	5 – 10 years
Non-compete agreements	2 – 5 years
Internally developed software	1 – 7 years
Trade name	1 year
Customer backlog	6 months – 1 year

Edgar Filing: PERFICIENT INC - Form 10-Q

Estimated annual amortization expense for the next five years ended December 31 and thereafter is as follows (in thousands):

2017 remaining	\$7,985
2018	\$14,209
2019	\$12,346
2020	\$9,262
2021	\$7,201
Thereafter	\$8,038

9. Line of Credit

On June 9, 2017, we entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent and the other lenders parties thereto. The Credit Agreement replaces the Second Amended and Restated Credit Agreement dated as of July 13, 2013 between the Company, Silicon Valley Bank and the other lenders and signatories thereto (the "Prior Credit Agreement"). The new credit facility was used to repay amounts due under the Prior Credit Agreement and will be used for working capital and general corporate purposes. In connection with the new agreement, the Company wrote off \$0.2 million in unamortized credit facility fees associated with the Prior Credit Agreement, which was included in "Net interest expense" on the Unaudited Condensed Consolidated Statements of Operations during the three and six months ended June 30, 2017. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$125.0 million, subject to a commitment increase of \$75.0 million. All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of June 9, 2022.

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 June 30, 2017, the Company had no outstanding letters of credit. Substantially all of the Company's assets are pledged to secure the credit facility.

Borrowings under the Credit Agreement bear interest at the Company's option of the prime rate (4.25% on June 30, 2017) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (1.22% on June 30, 2017) plus a margin ranging from 1.00% to 1.75%. The Company incurs an annual commitment fee of 0.15% to 0.20% on the unused portion of the line of credit. The additional margin amount and annual commitment fee are dependent on the level of outstanding borrowings. As of June 30, 2017, the Company had \$57.0 million of unused borrowing capacity.

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 to interest expense for the previous four consecutive fiscal quarters of not less than 3.00 to 1.00 and a ratio of indebtedness to EBITDA plus stock compensation ("Leverage Ratio") of not more than 3.00 to 1.00. Additionally, the Credit Agreement currently restricts the payment of dividends that would result in a pro forma Leverage Ratio of more than 2.00 to 1.00.

At June 30, 2017, 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 research credits in the amount of \$1.6 million on the Company's 2011 and 2012 U.S. income tax returns. The Company has exhausted all

administrative appeals and formal mediation and is now preparing for litigation with the IRS to resolve this dispute. The Company has filed suit and is awaiting a court date to be set by the U.S. Tax Court. 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 are not reasonably possible to estimate at this time.

As of June 30, 2017, the Company's net non-current deferred tax liability was \$14.0 million. Deferred tax liabilities primarily 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 June 30, 2017 (unaudited) and December 31, 2016. Under the provisions of the ASC Subtopic 740-10-25, Income Taxes - Recognition, the Company had an unrecognized tax benefit of \$1.4 million as of June 30, 2017.

15

The Company's effective tax rate was 68.4% and 57.9% for the three and six months ended June 30, 2017, respectively, compared to 34.4% and 32.9% for the three and six months ended June 30, 2016, respectively. The increase in the effective rate is primarily due to the Company's determination that the foreign earnings of the Company's Chinese subsidiary were no longer permanently reinvested.

In general, it is the Company's practice and intention to reinvest the earnings of the Company's foreign subsidiaries in those operations. However, during the three months ended June 30, 2017, the Company determined that as a result of changes in the business and macroeconomic environment, the foreign earnings of the Company's Chinese subsidiary were no longer permanently reinvested, and the Company repatriated \$4.8 million in June 2017 and an additional \$4.8 million in July 2017. A provision for the expected current and deferred taxes on repatriation of these earnings was recorded in the amount of \$2.5 million during the three and six months ended June 30, 2017. Management intends to continue to permanently reinvest all other remaining current and prior earnings in its other foreign subsidiaries.

Excluding China, foreign unremitted earnings of entities not included in the United States tax return have been included in the consolidated financial statements without giving effect to the United States taxes that may be payable on distribution to the United States because it is not anticipated such earnings will be remitted to the United States. Under current applicable tax laws, if the Company elects to remit some or all of the funds it has designated as indefinitely reinvested outside the United States, the amount remitted would be subject to United States income taxes and applicable non-U.S. income and withholding taxes. Such earnings would also become taxable upon the sale or liquidation of these subsidiaries or upon remittance of dividends. As of June 30, 2017, the aggregate unremitted earnings of the Company's foreign subsidiaries for which a deferred income tax liability has not been recorded was approximately \$0.6 million, and the unrecognized deferred tax liability on unremitted earnings was approximately \$0.1 million.

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.

Derivatives Not Designated as Hedging Instruments

Both the gain or loss on the derivatives not designated as hedging instruments and the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. Realized gains or losses and changes in the estimated fair value of foreign currency forward contracts that have not been designated as hedges were a net gain of \$0.1 million for each of the three and six months ended June 30, 2017. A net loss of \$0.1 million and \$0.2 million was recognized during the three and six months ended June 30, 2016, 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 fair value of the Company's derivative instruments outstanding as of June 30, 2017 was immaterial.

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

	June 30, 2017	December 31, 2016
Derivatives not designated as hedges		
Foreign exchange contracts	\$3,914	\$ 4,541

Total derivatives not designated as hedges \$3,914 \$ 4,541

12. Recent Accounting Pronouncements

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 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, ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, all of which further amended ASU No. 2014-09. These new updates are to become effective for the Company on January 1, 2018. The updates permit the use of either the retrospective or modified retrospective transition method. The Company will adopt the standard on January 1, 2018 using the modified retrospective method and will apply the guidance only to the most current period presented in the consolidated financial statements and only on contracts that are not completed as of the date of initial application. The cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of retained earnings within stockholders' equity. The Company continues to evaluate the effect that ASU No. 2014-09 and its amendments will have on its consolidated financial statements and disclosures in relation to distinguishing performance obligations, client acceptance and cancellation provisions, variable consideration, warranties and post-contract support services among others. Due to the complexity of the new standard and the nature of the Company's contracts, the actual revenue recognition treatment required under the new standard may vary and will depend on contract-specific terms. The Company expects to complete its assessment of the impact of adoption during 2017.

16

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. While the Company is currently assessing the impact ASU No. 2016-02 will have on its consolidated financial statements, the Company expects the primary impact upon adoption will be the recognition, on a discounted basis, of its minimum commitments under noncancellable operating leases on its consolidated balance sheets resulting in the recording of right of use assets and lease obligations. Current minimum commitments under noncancellable operating leases are disclosed in Note 5, Commitments and Contingencies.

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 elected to early adopt this update retrospectively on January 1, 2017 since the Company was already in compliance with the new standard. The adoption of ASU No. 2016-15 did not have a material impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment. This update eliminates Step 2 from the goodwill impairment test which compares the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. ASU No. 2017-04 does not make any changes to the impairment indicators or aspects of the qualitative assessment. This update is to become effective for the Company on January 1, 2020 and requires using a prospective approach. Early adoption is permitted beginning with interim or annual goodwill impairment tests performed on testing dates on or after January 1, 2017. The Company elected to early adopt this update prospectively on January 1, 2017. The adoption of ASU No. 2017-04 did not have an impact on the Company's consolidated financial statements.

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

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

Overview

We are an information technology 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 business intelligence and analytics, commerce, content management, custom applications, platform implementations, portals and collaboration, business integration and APIs, management consulting, 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.

17

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 portion of our revenues is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 26% of our services revenues for each of the three and six months ended June 30, 2017 compared to 19% and 20% for the three and six months ended June 30, 2016, respectively. The increase in fixed fee revenues is primarily attributable to an organic increase in fixed fee engagements overall. 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 recognized when earned and recorded 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.

18

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 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 includes 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 June 30, 2017 compared to three months ended June 30, 2016

Revenues. Total revenues decreased 6% to \$117.0 million for the three months ended June 30, 2017 from \$124.4 million for the three months ended June 30, 2016.

	Financial Results (in thousands)		Total Decrease Over Prior Year Period	Explanation for Increases (Decreases) Over Prior Year Period (in thousands)	
	Three Months Ended June 30, 2017	2016		Increase Attributable to Acquired Companies	Decrease Attributable to Base Business
Services revenues	\$104,794	\$107,882	\$(3,088)	\$4,923	\$(8,011)
Software and hardware revenues	9,270	11,247	(1,977)	-	(1,977)
Reimbursable expenses	2,962	5,267	(2,305)	132	(2,437)
Total revenues	\$117,026	\$124,396	\$(7,370)	\$5,055	\$(12,425)

Services revenues decreased 3% to \$104.8 million for the three months ended June 30, 2017 from \$107.9 million for the three months ended June 30, 2016. Services revenues attributable to our base business decreased by \$8.0 million and services revenues attributable to acquired companies was \$4.9 million, resulting in a total decrease of \$3.1 million.

Software and hardware revenues decreased 18% to \$9.3 million for the three months ended June 30, 2017 from \$11.2 million for the three months ended June 30, 2016, primarily due to a decrease in initial and renewal software license sales in our base business. Reimbursable expenses decreased 44% to \$3.0 million for the three months ended June 30, 2017 from \$5.3 million for the three months ended June 30, 2016, primarily as a result of a higher mix of projects with no reimbursable expenses. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues decreased 10% to \$77.6 million for the three months ended June 30, 2017 from \$86.1 million for the three months ended June 30, 2016. Cost of services decreased 6% to \$66.9 million for the three months ended June 30, 2017 from \$71.1 million for the three months ended June 30, 2016 primarily as a result of lower headcount in response to lower services revenue. Software and hardware costs decreased 21% to \$7.7 million for the three months ended June 30, 2017 from \$9.7 million for the three months ended June 30, 2016, as a result of the decrease in software license sales. The remaining decrease in cost of revenues is related to the decrease in reimbursable expenses noted above.

Edgar Filing: PERFICIENT INC - Form 10-Q

Gross Margin. Gross margin increased 3% to \$39.4 million for the three months ended June 30, 2017 from \$38.3 million for the three months ended June 30, 2016. Gross margin as a percentage of revenues increased to 33.7% for the three months ended June 30, 2017 from 30.8% for the three months ended June 30, 2016 due to an increase in both services and software and hardware gross margin. Services gross margin, excluding reimbursable expenses, increased to \$37.8 million for the three months ended June 30, 2017 from \$36.8 million for the three months ended June 30, 2016. Services gross margin, excluding reimbursable expenses, as a percentage of revenues increased to 36.1% for the three months ended June 30, 2017 from 34.1% for the three months ended June 30, 2016 primarily driven by improved utilization. The average bill rate of our professionals excluding subcontractors and offshore resources was \$145 per hour for the three months ended June 30, 2017 compared to \$144 per hour for the three months ended June 30, 2016.

Selling, General and Administrative. SG&A expenses increased 2% to \$26.1 million for the three months ended June 30, 2017 from \$25.6 million for the three months ended June 30, 2016, primarily due to acquisitions completed during the fourth quarter of 2016 and the first half of 2017. SG&A expenses as a percentage of revenues increased to 22.3% for the three months ended June 30, 2017 from 20.6% for the three months ended June 30, 2016, primarily as a result of lower revenues.

Depreciation. Depreciation expense was \$1.2 million for each of the three months ended June 30, 2017 and 2016. Depreciation expense as a percentage of revenues was 1.0% for each of the three months ended June 30, 2017 and 2016.

Amortization. Amortization expense increased 7% to \$3.5 million for the three months ended June 30, 2017 from \$3.3 million for the three months ended June 30, 2016. The increase in amortization expense was due to the addition of intangible assets from the 2016 and 2017 acquisitions. Amortization expense as a percentage of revenues was 3.0% for the three months ended June 30, 2017 and 2.7% for the three months ended June 30, 2016.

Acquisition Costs. Acquisition-related costs increased to \$0.9 million for the three months ended June 30, 2017 from \$0.2 million for the three months ended June 30, 2016, as a result of the acquisition of Clarity. 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 \$0.6 million was recorded during the three months ended June 30, 2017, which represents the net impact of the fair market value adjustments to the RAS and Bluetube revenue and earnings-based contingent consideration liability in addition to the accretion of the fair value estimate for the revenue and earnings-based contingent consideration related to the acquisition of Bluetube, RAS and Clarity. An adjustment of \$1.2 million was recorded during the three months ended June 30, 2016 which represents the net impact of the fair market value adjustment to the Enlighten earnings-based contingent consideration liability partially offset by the accretion of the fair value estimate for the earnings-based contingent consideration related to the acquisitions of Market Street and Enlighten.

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 68.4% for the three months ended June 30, 2017 from 34.4% for the three months ended June 30, 2016. The increase in the effective rate is primarily due to the Company's determination that the foreign earnings of the Company's Chinese subsidiary were no longer permanently reinvested.

Six months ended June 30, 2017 compared to six months ended June 30, 2016

Revenues. Total revenues decreased 8% to \$228.0 million for the six months ended June 30, 2017 from \$248.2 million for the six months ended June 30, 2016.

Edgar Filing: PERFICIENT INC - Form 10-Q

Financial Results (in thousands) Six Months Ended June 30,	Total		Explanation for Increases (Decreases) Over Prior Year Period (in thousands)		
	2017	2016	Decrease Over Prior Year Period	Increase Attributable to Acquired Companies Business	Decrease Attributable to Base Business
Services revenues	\$205,681	\$217,629	\$(11,948)	\$9,998	\$(21,946)
Software and hardware revenues	16,269	20,723	(4,454)	-	(4,454)
Reimbursable expenses	6,096	9,886	(3,790)	213	(4,003)
Total revenues	\$228,046	\$248,238	\$(20,192)	\$10,211	\$(30,403)

20

Edgar Filing: PERFICIENT INC - Form 10-Q

Services revenues decreased 5% to \$205.7 million for the six months ended June 30, 2017 from \$217.6 million for the six months ended June 30, 2016. Services revenues attributable to our base business decreased by \$21.9 million and services revenues attributable to acquired companies was \$10.0 million, resulting in a total decrease of \$11.9 million.

Software and hardware revenues decreased 21% to \$16.3 million for the six months ended June 30, 2017 from \$20.7 million for the six months ended June 30, 2016, primarily due to a decrease in initial and renewal software license sales. Reimbursable expenses decreased 38% to \$6.1 million for the six months ended June 30, 2017 from \$9.9 million for the six months ended June 30, 2016, primarily as a result of a higher mix of projects with no reimbursable expenses. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues decreased 10% to \$152.6 million for the six months ended June 30, 2017 from \$169.7 million for the six months ended June 30, 2016. The decrease in cost of revenues is primarily related to cost of services which decreased 7% to \$132.8 million for the six months ended June 30, 2017 from \$142.7 million for the six months ended June 30, 2016 primarily due to lower headcount in response to lower service revenue. Software and hardware costs decreased 20% to \$13.7 million for the six months ended June 30, 2017 from \$17.2 million for the six months ended June 30, 2016, as a result of the decrease in software license sales.

Gross Margin. Gross margin decreased 4% to \$75.5 million for the six months ended June 30, 2017 from \$78.5 million for the six months ended June 30, 2016. Gross margin as a percentage of revenues increased to 33.1% for the six months ended June 30, 2017 from 31.6% for the six months ended June 30, 2016 primarily due to an increase in services gross margin. Services gross margin, excluding reimbursable expenses, decreased to \$72.9 million for the six months ended June 30, 2017 from \$75.0 million for the six months ended June 30, 2016. Services gross margin, excluding reimbursable expenses, as a percentage of revenues increased to 35.4% for the six months ended June 30, 2017 from 34.5% for the six months ended June 30, 2016, primarily driven by improved utilization. The average bill rate of our professionals excluding subcontractors and offshore resources was \$145 per hour for the six months ended June 30, 2017 compared to \$144 per hour for the six months ended June 30, 2016.

Selling, General and Administrative. SG&A expenses decreased 1% to \$51.8 million for the six months ended June 30, 2017 from \$52.3 million for the six months ended June 30, 2016, primarily due to lower recruiting costs partially offset by acquisitions completed during the fourth quarter of 2016 and the first half of 2017. SG&A expenses as a percentage of revenues increased to 22.7% for the six months ended June 30, 2017 from 21.1% for the six months ended June 30, 2016, primarily as a result of lower revenues.

Depreciation. Depreciation expense increased 2% to \$2.5 million for the six months ended June 30, 2017 from \$2.4 million for the six months ended June 30, 2016. Depreciation expense as a percentage of revenues was 1.1% for the six months ended June 30, 2017 and 1.0% million for the six months ended June 30, 2016.

Amortization. Amortization expense increased 7% to \$7.2 million for the six months ended June 30, 2017 from \$6.7 million for the six months ended June 30, 2016. The increase in amortization expense was due to the addition of intangible assets from the 2016 and 2017 acquisitions. Amortization expense as a percentage of revenues was 3.1% for the six months ended June 30, 2017 and 2.7% for the six months ended June 30, 2016.

Acquisition Costs. Acquisition-related costs increased to \$1.4 million for the six months ended June 30, 2017 from \$0.4 million for the six months ended June 30, 2016, as a result of the acquisition of RAS and Clarity. 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 \$0.4 million was recorded during the six months ended June 30, 2017, which represents the net impact of the fair market value adjustments to the RAS and Bluetube revenue and earnings-based contingent consideration liability in addition to the accretion of the fair value estimate for the revenue and earnings-based contingent consideration related to the acquisition of Enlighten, Bluetube,

RAS and Clarity. An adjustment of \$1.0 million was recorded during the six months ended June 30, 2016 which represents the net impact of the fair market value adjustment to the Enlighten earnings-based contingent consideration liability partially offset by the accretion of the fair value estimate for the earnings-based contingent consideration related to the acquisition of Zeon, Market Street and Enlighten.

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 57.9% for the six months ended June 30, 2017 from 32.9% for the six months ended June 30, 2016. The increase in the effective rate is primarily due to the Company's determination that the foreign earnings of the Company's Chinese subsidiary were no longer permanently reinvested.

21

Liquidity and Capital Resources

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

	As of June 30, 2017	As of December 31, 2016
Cash, cash equivalents and investments (1)	\$5.7	\$ 10.1
Working capital (including cash and cash equivalents) (2)	\$69.4	\$ 76.4
Amounts available under credit facilities	\$57.0	\$ 93.0

(1) The balance at June 30, 2017 includes \$1.6 million held by our Canadian, Indian and United Kingdom subsidiaries 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. The balance also includes \$4.1 in cash held in our Chinese subsidiary. During the second quarter of 2017, the Company determined that the Chinese subsidiary's earnings were no longer permanently reinvested and repatriated additional cash to the U.S. parent in the second and third quarters of 2017.

(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 six months ended June 30, 2017 was \$24.9 million compared to \$29.4 million for the six months ended June 30, 2016. For the six months ended June 30, 2017, the primary components of operating cash flows were net income of \$5.1 million plus non-cash charges of \$18.6 million and reductions in net operating assets of \$1.2 million. The primary components of operating cash flows for the six months ended June 30, 2016 were net income of \$11.2 million plus non-cash charges of \$16.1 million and reductions in net operating assets of \$2.1 million.

Net Cash Used In Investing Activities

During the six months ended June 30, 2017, we used \$2.7 million to purchase property and equipment and to develop certain software and \$37.9 million for the acquisition of RAS and Clarity. During the six months ended June 30, 2016, we used \$3.6 million to purchase property and equipment and to develop certain software and our new website. We also used \$0.3 million for a net working capital settlement related to a 2015 acquisition.

Net Cash Provided By (Used In) Financing Activities

During the six months ended June 30, 2017, we drew down \$154.0 million from our line of credit. We repaid \$118.0 million on our line of credit, used \$20.9 million to repurchase shares of our common stock through the stock repurchase program and used \$2.5 million to remit taxes withheld as part of a net share settlement of restricted stock vesting. We also paid \$1.3 million to settle the contingent consideration for the purchase of Market Street and Enlighten and made \$0.4 million in payments for credit facility financing fees. During the six months ended June 30, 2016, we drew down \$104.0 million from our line of credit and we received proceeds from sales of stock through the Employee Stock Purchase Plan of \$0.1 million. We repaid \$124.0 million on our line of credit, used \$2.1 million to settle the contingent consideration for the purchase of Zeon, used \$2.4 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

On June 9, 2017, the Company entered into a Credit Agreement (the "Credit Agreement") with Wells Fargo Bank, National Association, as administrative agent and the other lenders parties thereto. The Credit Agreement replaces the Second Amended and Restated Credit Agreement dated as of July 13, 2013 between the Company, Silicon Valley Bank and the other lenders and signatories thereto (the "Prior Credit Agreement"). The new credit facility was used to repay amounts due under the Prior Credit Agreement and will be used for working capital and general corporate purposes. In connection with the new agreement, the Company wrote off \$0.2 million in unamortized credit facility fees associated with the Prior Credit Agreement, which was included in "Net interest expense" on the Unaudited Condensed Consolidated Statements of Operations during the three and six months ended June 30, 2017. The Credit Agreement provides for revolving credit borrowings up to a maximum principal amount of \$125.0 million, subject to a commitment increase of \$75.0 million. All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of June 9, 2022.

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 June 30, 2017, the Company had no outstanding letters of credit. Substantially all of the Company's assets are pledged to secure the credit facility.

22

Borrowings under the Credit Agreement bear interest at the Company's option of the prime rate (4.25% on June 30, 2017) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (1.22% on June 30, 2017) plus a margin ranging from 1.00% to 1.75%. The Company incurs an annual commitment fee of 0.15% to 0.20% on the unused portion of the line of credit. The additional margin amount and annual commitment fee are dependent on the level of outstanding borrowings. As of June 30, 2017, the Company had \$57.0 million of unused borrowing capacity.

At June 30, 2017, the Company was in compliance with all covenants under the Credit Agreement.

Stock Repurchase Program

Prior to 2017, our Board of Directors authorized the repurchase of up to \$110.0 million of our common stock. On February 21, 2017, our Board of Directors authorized the expansion of our stock repurchase program by authorizing the repurchase of up to an additional \$25.0 million of our common stock for a total repurchase program of \$135.0 million and extended the expiration date of the program from December 31, 2017 to December 31, 2018.

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 \$123.3 million (11.8 million shares) of our outstanding common stock through June 30, 2017.

Contractual Obligations

There were no material changes outside the ordinary course of our business in lease obligations in the first six months of 2017. See Note 5, Commitments and Contingencies for further description of our contractual obligations.

As of June 30, 2017, there was \$68.0 million outstanding under the Credit Agreement as compared to \$32.0 million as of December 31, 2016. The amounts are classified as "Long-term debt" within the Condensed Consolidated Balance Sheets as of June 30, 2017 (unaudited) and December 31, 2016 and will become due and payable no later than the final maturity date of June 9, 2022.

Off Balance Sheet Arrangements

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

Conclusion

Of the total cash and cash equivalents reported on the Condensed Consolidated Balance Sheet as of June 30, 2017 (unaudited) of \$5.7 million, approximately \$1.6 million was held by the Company's Canadian, Indian and United Kingdom subsidiaries and is considered to be indefinitely reinvested in those operations. The Company is able to fund its liquidity needs outside of these subsidiaries, primarily through cash flows generated by domestic operations and our credit facility. Therefore, the Company has no current plans to repatriate cash from these foreign subsidiaries in the foreseeable future. However, if these funds were repatriated, the amount remitted would be subject to U.S. income taxes and income and withholding taxes applicable under each foreign country's laws. As of June 30, 2017, the estimated tax impact of repatriation would have been approximately \$0.1 million. See Note 10, Income Taxes, for a discussion of the Company's repatriation of earnings from the Company's Chinese subsidiary.

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, 2016. We believe our most critical accounting policies include revenue recognition, accounting for goodwill and intangible assets, purchase accounting, accounting for stock-based compensation, and accounting for income taxes.

23

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 June 30, 2017, 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 foreign currency exchange rate 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 June 30, 2017, there was \$68.0 million outstanding and \$57.0 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 \$68.0 million outstanding on the line of credit as of June 30, 2017, an increase in the interest rate of 100 basis points would add \$680,000 of interest expense per year, which is not considered material to our financial position or results of operations.

We had unrestricted cash and cash equivalents totaling \$5.7 million at June 30, 2017 and \$10.1 million at December 31, 2016. The unrestricted cash and cash equivalents are primarily held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future interest income.

Item 4. Controls and Procedures

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 June 30, 2017, 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, 2016, as filed with the SEC on February 28, 2017 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 2017, our Board of Directors authorized the repurchase of up to \$110.0 million of our common stock. On February 21, 2017, our Board of Directors authorized the expansion of our stock repurchase program by authorizing the repurchase of up to an additional \$25.0 million of our common stock for a total repurchase program of \$135.0 million and extended the expiration date of the program from December 31, 2017 to December 31, 2018.

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 \$123.3 million (11.8 million shares) of our outstanding common stock through June 30, 2017.

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 March 31, 2017	11,006,773	\$ 10.04	11,006,773	\$24,496,732
April 1-30, 2017	100,000	17.26	100,000	\$22,770,393
May 1-31, 2017	525,225	17.01	525,225	\$13,837,858
June 1-30, 2017	121,800	17.49	121,800	\$11,707,528
Ending balance as of June 30, 2017	11,753,798	\$ 10.49	11,753,798	

(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.

25

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: August 3, 2017 By: /s/ Jeffrey S. Davis
Jeffrey S. Davis
Chief Executive Officer (Principal Executive Officer)

Date: August 3, 2017 By: /s/ Paul E. Martin
Paul E. Martin
Chief Financial Officer (Principal Financial Officer)

EXHIBITS INDEX

Exhibit Number	Description
3.1	<u>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</u>
3.2	<u>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</u>
3.3	<u>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</u>
3.4*	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc.
3.5	<u>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</u>
4.1	<u>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</u>
10.1	<u>Credit Agreement, dated as of June 9, 2017, by and among Perficient, Inc., as Borrower, Wells Fargo Bank, National Association, as administrative agent and the other lenders parties thereto, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K (File No. 001-15169) filed June 12, 2017 and incorporated herein by reference</u>
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 June 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of June 30, 2017 (Unaudited) and December 31, 2016, (ii) Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016, (iii) Unaudited Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2017 and 2016, (iv) Unaudited Condensed Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2017, (v) Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, 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.