

PERFICIENT INC
Form 10-Q
August 07, 2008

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, 2008

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.)

1120 South Capital of Texas Highway, Building 3, Suite 220
Austin, Texas 78746

(Address of principal executive offices)
(512) 531-6000

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.(Check one):

Large accelerated filero

Accelerated filer

Non-accelerated filero

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

Yes No

Edgar Filing: PERFICIENT INC - Form 10-Q

As of August 1, 2008, there were 32,165,124 shares of Common Stock outstanding.

TABLE OF CONTENTS

Part I. Financial Information	1
Item 1. Financial Statements	1
Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007	1
Condensed Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2008 and 2007	2
Condensed Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2008	3
Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2008 and 2007	4
Notes to Unaudited Condensed Consolidated Financial Statements	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	20
Item 4. Controls and Procedures	20
Part II. Other Information	21
Item 1A. Risk Factors	21
Item 4. Submission of Matters to a Vote of Security Holders	21
Item 6. Exhibits	21
Signatures	22

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Perficient, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

	June 30, 2008	December 31, 2007
(In thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,274	\$ 8,070
Accounts receivable, net	49,251	50,855
Prepaid expenses	1,373	1,182
Other current assets	4,028	4,142
Total current assets	72,926	64,249
Property and equipment, net	3,000	3,226
Goodwill	104,607	103,686
Intangible assets, net	15,291	17,653
Other non-current assets	2,054	1,178
Total assets	\$ 197,878	\$ 189,992
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,817	\$ 4,160
Other current liabilities	14,791	18,721
Total current liabilities	18,608	22,881
Deferred income taxes	1,088	1,549
Total liabilities	\$ 19,696	\$ 24,430
Stockholders' equity:		
Common stock (par value \$.001 per share; 50,000,000 shares authorized and 29,785,034 shares issued and outstanding as of June 30, 2008; 29,423,296 shares issued and outstanding as of December 31, 2007)	\$ 30	\$ 29
Additional paid-in capital	194,557	188,998
Accumulated other comprehensive loss	(122)	(117)
Accumulated deficit	(16,283)	(23,348)
Total stockholders' equity	178,182	165,562
Total liabilities and stockholders' equity	\$ 197,878	\$ 189,992

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
(In thousands, except per share data)				
Revenues				
Services	\$ 53,632	\$ 45,961	\$ 105,732	\$ 89,258
Software	2,098	3,696	3,782	7,887
Reimbursable expenses	3,370	2,938	6,909	5,499
Total revenues	59,100	52,595	116,423	102,644
Cost of revenues (exclusive of depreciation shown separately below)				
Project personnel costs	32,547	27,440	66,250	53,705
Software costs	1,728	3,311	3,197	6,796
Reimbursable expenses	3,370	2,938	6,909	5,499
Other project related expenses	1,316	721	2,366	1,406
Total cost of revenues	38,961	34,410	78,722	67,406
Gross margin	20,139	18,185	37,701	35,238
Selling, general and administrative	11,567	9,937	22,327	20,237
Depreciation	556	361	1,094	698
Amortization of intangible assets	1,214	980	2,431	1,826
Income from operations	6,802	6,907	11,849	12,477
Interest income	91	63	205	112
Interest expense	(2)	(15)	(13)	(65)
Other income (expense)	(98)	3	(45)	9
Income before income taxes	6,793	6,958	11,996	12,533
Provision for income taxes	2,804	2,944	4,931	5,359
Net income	\$ 3,989	\$ 4,014	\$ 7,065	\$ 7,174
Basic net income per share	\$ 0.13	\$ 0.15	\$ 0.24	\$ 0.26
Diluted net income per share	\$ 0.13	\$ 0.13	\$ 0.23	\$ 0.24
Shares used in computing basic net income per share	29,718	27,594	29,627	27,337
Shares used in computing diluted net income per share	30,763	29,835	30,744	29,642

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Condensed Consolidated Statement of Stockholders' Equity
Six Months Ended June 30, 2008
(Unaudited)
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2007	29,423	\$ 29	\$ 188,998	\$ (117)	\$ (23,348)	\$ 165,562
ePairs acquisition purchase accounting adjustment	--	--	88	--	--	88
Stock options exercised	272	1	574	--	--	575
Purchase of stock under the Employee Stock Purchase Plan	14	--	112	--	--	112
Tax benefit of stock option exercises and restricted stock vesting	--	--	238	--	--	238
Stock compensation and retirement savings plan contributions	76	--	4,547	--	--	4,547
Foreign currency translation adjustment	--	--	--	(5)	--	(5)
Net income	--	--	--	--	7,065	7,065
Total comprehensive income	--	--	--	--	--	7,060
Balance at June 30, 2008	29,785	\$ 30	\$ 194,557	\$ (122)	\$ (16,283)	\$ 178,182

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2008	2007
	(In thousands)	
OPERATING ACTIVITIES		
Net income	\$ 7,065	\$ 7,174
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,094	698
Amortization of intangibles	2,431	1,826
Deferred income taxes	(451)	424
Non-cash stock compensation and retirement savings plan contributions	4,547	3,003
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	1,787	(2,560)
Other assets	(1,675)	2,995
Accounts payable	(361)	(2,118)
Other liabilities	(3,525)	(4,806)
Net cash provided by operating activities	10,912	6,636
INVESTING ACTIVITIES		
Purchase of property and equipment	(877)	(807)
Capitalization of software developed for internal use	(69)	(72)
Cash paid for acquisitions and related costs	(292)	(13,652)
Net cash used in investing activities	(1,238)	(14,531)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	--	11,900
Payments on short-term borrowings	--	(11,900)
Payments on long-term debt	--	(1,338)
Payments for credit facility financing fees	(413)	--
Tax benefit on stock options and restricted stock vesting	238	3,038
Proceeds from the exercise of stock options and Employee Stock Purchase Plan	687	2,139
Net cash provided by financing activities	512	3,839
Effect of exchange rate on cash and cash equivalents	18	(16)
Change in cash and cash equivalents	10,204	(4,072)
Cash and cash equivalents at beginning of period	8,070	4,549
Cash and cash equivalents at end of period	\$ 18,274	\$ 477
Supplemental disclosures:		
Cash paid for interest	\$ 13	\$ 40
Cash paid for income taxes	\$ 4,535	\$ 418
Non cash activities:		
Stock issued for purchase of businesses	\$ --	\$ 12,297

Change in goodwill	\$	2	\$	(269)
--------------------	----	---	----	-------

See accompanying notes to interim unaudited condensed consolidated financial statements.

PERFICIENT, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of Perficient, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States and are presented in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”) applicable to interim financial information. Accordingly, certain footnote disclosures have been condensed or omitted. In the opinion of management, the unaudited interim condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto filed with the SEC in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007. Operating results for the three and six months ended June 30, 2008 may not be indicative of the results for the full fiscal year ending December 31, 2008.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

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

Revenues are recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) delivery and acceptance have occurred, and (4) collectibility is deemed probable. The Company’s policy for revenue recognition in instances where multiple deliverables are sold contemporaneously to the same counterparty is in accordance with American Institute of Certified Public Accountants (“AICPA”) Statement of Position 97-2, Software Revenue Recognition, Emerging Issues Task Force (“EITF”) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables, and SEC Staff Accounting Bulletin No. 104, Revenue Recognition. Specifically, if the Company enters into contracts for the sale of services and software, then the Company evaluates whether the services are essential to the functionality of the software and whether it has objective fair value evidence for each deliverable in the transaction. If the Company has concluded that the services to be provided are not essential to the functionality of the software and it can determine objective fair value evidence for

each deliverable of the transaction, 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. The Company follows the guidelines discussed above in determining revenues; however, certain judgments and estimates are made and used to determine revenues recognized in any accounting period. If estimates are revised, material differences may result in the amount and timing of revenues recognized for a given period.

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

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 Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), the Company performs an annual impairment test of goodwill. The Company evaluates goodwill as of October 1 each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired. As required by SFAS 142, the impairment test is accomplished using a two-step approach. The first step screens for impairment and, when impairment is indicated, a second step is employed to measure the impairment. The Company also reviews other factors to determine the likelihood of impairment. During the six months ended June 30, 2008, there were no triggering events that may indicate an impairment of goodwill has occurred.

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

Stock-Based Compensation

The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123 (revised), Share Based Payment ("SFAS 123R"), the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation. Refer to Note 3, Stock-Based Compensation, for further discussion.

3. Stock-Based Compensation

Stock Option Plans

In May 1999, the Company's Board of Directors and stockholders approved the 1999 Stock Option/Stock Issuance Plan (the "1999 Plan"). The 1999 Plan contains programs for (i) the discretionary granting of stock options to employees, non-employee board members and consultants for the purchase of shares of the Company's common stock, (ii) the discretionary issuance of common stock directly to eligible individuals, and (iii) the automatic issuance of stock options to non-employee board members. The Compensation Committee of the Board of Directors administers the 1999 Plan, and determines the exercise price and vesting period for each grant. Options granted under the 1999 Plan have a maximum term of 10 years. In the event that the Company is acquired, whether by merger or asset sale or board-approved sale by the stockholders of more than 50% of the Company's outstanding voting stock, each outstanding option under the discretionary option grant program which is not to be assumed by the successor corporation or otherwise continued will automatically accelerate vesting in full, and all unvested shares under the discretionary option grant and stock issuance programs will immediately vest, except to the extent the Company's repurchase rights with respect to those shares are to be assigned to the successor corporation or otherwise continued in effect. The Compensation Committee may grant options under the discretionary option grant program that will accelerate vesting in the event of an acquisition even if the options are assumed or that will accelerate if the optionee's service is subsequently terminated.

The Compensation Committee may grant options and issue shares that accelerate vesting in connection with a hostile change in control effected through a successful tender offer for more than 50% of the Company's outstanding voting stock or by proxy contest for the election of board members, or the options and shares may accelerate upon a subsequent termination of the individual's service.

Share-based compensation cost recognized for the three months ended June 30, 2008 was approximately \$2.2 million, which included \$0.2 million of expense for retirement savings plan contributions. For the three months ended June 30, 2007, total share-based compensation cost was approximately \$1.4 million. The associated current and future income tax benefits recognized for the three months ended June 30, 2008 and 2007 were approximately \$0.7 million and \$0.5 million, respectively. For the six months ended June 30, 2008 total share-based compensation cost recognized was approximately \$4.5 million, which included \$0.5 million of expense for retirement savings plan contributions. For the six months ended June 30, 2007, total share-based compensation cost was approximately \$3.0 million. The associated current and future income tax benefits recognized for the six months ended June 30, 2008 and

2007 were approximately \$1.4 million and \$1.0 million, respectively. As of June 30, 2008, there was \$27.6 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 4 years.

Stock option activity for the six months ended June 30, 2008 was as follows (in thousands, except exercise price information):

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price
Options outstanding at January 1, 2008	2,379	\$ 0.02 – 16.94	\$ 4.44
Options exercised	(272)	0.02 – 10.00	2.11
Options outstanding at June 30, 2008	2,107	0.03 – 16.94	4.75
Options vested at June 30, 2008	1,725	\$ 0.03 – 16.94	\$ 4.38

Restricted stock activity for the six months ended June 30, 2008 was as follows (in thousands, except fair value information):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2008	2,053	\$ 14.33
Awards granted	177	8.89
Awards vested	(18)	13.67
Awards forfeited	(71)	14.54
Restricted stock awards outstanding at June 30, 2008	2,141	\$ 13.88

4. Net Income per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 3,989	\$ 4,014	\$ 7,065	\$ 7,174
Basic:				
Weighted-average shares of common stock outstanding	29,718	27,594	29,627	27,337
Shares used in computing basic net income per share	29,718	27,594	29,627	27,337
Effect of dilutive securities:				
Stock options	918	1,835	993	1,920
Warrants	6	8	7	8
Restricted stock subject to vesting	121	398	117	377
Shares used in computing diluted net income per share (1)	30,763	29,835	30,744	29,642
Basic net income per share	\$ 0.13	\$ 0.15	\$ 0.24	\$ 0.26

Edgar Filing: PERFICIENT INC - Form 10-Q

Diluted net income per share	\$	0.13	\$	0.13	\$	0.23	\$	0.24
------------------------------	----	------	----	------	----	------	----	------

(1) For the three months ended June 30, 2008, approximately 216,000 options for shares and 1.6 million shares of restricted stock were excluded. For the six months ended June 30, 2008, approximately 198,000 options for shares and 1.6 million shares of restricted stock were excluded. These shares were excluded from shares used in computing diluted net income per share because they would have had an anti-dilutive effect.

5. Commitments and Contingencies

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

	Operating Leases
2008 remaining	\$ 1,257
2009	2,158
2010	1,829
2011	1,454
2012	497
Thereafter	271
Total minimum lease payments	\$ 7,466

At June 30, 2008, the Company had one letter of credit outstanding for \$100,000 to serve as collateral to secure an office lease. This letter of credit expires in October 2009 and reduces the credit available for revolving credit borrowings under the Company's credit agreement with Silicon Valley Bank and KeyBank National Association.

6. Balance Sheet Components

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

	June 30, 2008	December 31, 2007
Accounts receivable	\$ 30,427	\$ 36,894
Unbilled revenue	19,446	15,436
Allowance for doubtful accounts	(622)	(1,475)
Total	\$ 49,251	\$ 50,855

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

	June 30, 2008	December 31, 2007
Note receivable (1)	\$ 1,265	\$ --
Deferred current tax assets	826	837
Income tax receivable	790	1,670
Miscellaneous receivable	514	211
Payroll tax refund receivable	188	527
Other current assets	445	897
Total	\$ 4,028	\$ 4,142

(1) In June 2008, the Company entered into a note arrangement with a customer. The note provides that the customer will pay for a portion of services performed by the Company up to \$2.5 million over a one-year term. The customer's outstanding balance bears an annual interest rate of 10%.

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

June 30, 2008	December 31, 2007
------------------	----------------------

Edgar Filing: PERFICIENT INC - Form 10-Q

Accrued bonus	\$	5,049	\$	9,378
Payroll related costs		2,387		1,862
Accrued subcontractor fees		2,151		2,399
Accrued reimbursable expenses		1,108		788
Accrued medical claims expense		839		850
Deferred revenues		718		1,439
Other accrued expenses		2,539		2,005
Total	\$	14,791	\$	18,721

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