PERFICIENT INC
Form 10-Q
November 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission file number: 001-15169

PERFICIENT, INC.

(Exact name of registrant as specified in its charter)

Delaware	No. 74-2853258
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

520 Maryville Centre Drive,

Suite 400

Saint Louis, Missouri 63141

(Address of principal executive offices)

(314) 529-3600

(Registrant's telephone number, including area code)

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

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

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of October 29, 2012, there were 33,116,905 shares of Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Perficient, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share information)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,481	$ 9,732
Accounts receivable, net	78,091	60,892
Prepaid expenses	1,564	1,246
Other current assets	3,097	3,118
Total current assets	86,233	74,988
Property and equipment, net	4,526	3,490
Goodwill	160,199	132,038
Intangible assets, net	19,408	10,128
Other non-current assets	3,600	3,288
Total assets	$ 273,966	$ 223,932
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 7,538	$ 5,029
Other current liabilities	20,678	18,483
Total current liabilities	28,216	23,512
Long-term debt	11,500	--
Other non-current liabilities	1,359	1,461
Total liabilities	$ 41,075	$ 24,973

Stockholders' equity:

Common stock (par value $.001 per share; 50,000,000 shares authorized and 38,426,203 shares issued and 30,846,332 shares outstanding as of September 30, 2012;

36,217,914 shares issued and 28,742,906 shares outstanding as of December 31, 2011)	$ 38	$ 36
Additional paid-in capital	272,232	248,855
Accumulated other comprehensive loss	(270)	(279)
Treasury stock, at cost (7,579,871 shares as of September 30, 2012; 7,475,008 shares as of December 31, 2011)	(56,182)	(54,995)
Retained earnings	17,073	5,342
Total stockholders' equity	232,891	198,959
Total liabilities and stockholders' equity	$ 273,966	$ 223,932

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In thousands, except per share data)			
Revenues				
Services	$ 75,948	$ 62,486	$ 214,793	$ 171,911
Software and hardware	7,450	3,868	17,122	10,618
Reimbursable expenses	4,076	3,820	12,053	9,477
Total revenues	87,474	70,174	243,968	192,006
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Project personnel costs	47,843	39,292	136,742	109,024
Software and hardware costs	6,301	3,425	14,554	9,223
Reimbursable expenses	4,076	3,820	12,053	9,477
Other project related expenses	1,027	1,320	2,988	4,454
Total cost of revenues	59,247	47,857	166,337	132,178
Gross margin	28,227	22,317	77,631	59,828
Selling, general and administrative	17,714	13,797	49,065	38,283
Depreciation	612	484	1,590	1,207
Amortization	2,258	1,984	5,664	4,663
Acquisition costs	9	1	1,831	1,231
Adjustment to fair value of contingent consideration	97	334	435	852
Income from operations	7,537	5,717	19,046	13,592
Net interest (expense) income	(93)	(1)	(131)	67
Net other income (expense)	5	13	49	(6)
Income before income taxes	7,449	5,729	18,964	13,653
Provision for income taxes	2,307	2,263	7,233	5,627
Net income	$ 5,142	$ 3,466	$ 11,731	$ 8,026
Basic net income per share	$ 0.17	$ 0.12	$ 0.40	$ 0.29
Diluted net income per share	$ 0.16	$ 0.12	$ 0.38	$ 0.28
Shares used in computing basic net income per share	30,021	27,744	29,273	27,679
Shares used in computing diluted net income per share	31,674	29,518	30,844	29,054

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In thousands)		(In thousands)	
Net income	$ 5,142	$ 3,466	$ 11,731	$ 8,026
Other comprehensive income, net of reclassification adjustments:				
Foreign currency translation adjustment	49	(97)	9	(50)
Net unrealized loss on investments	--	--	--	(19)
Comprehensive income	$ 5,191	$ 3,369	$ 11,740	$ 7,957

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.

Condensed Consolidated Statement of Stockholders' Equity

Nine Months Ended September 30, 2012

(Unaudited)

(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2011	28,743	$ 36	$ 248,855	$ (279)	$ (54,995)	$ 5,342	$ 198,959
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	32	--	134	--	--	--	134
Net tax benefit from stock option exercises and restricted stock vesting	--	--	678	--	--	--	678
Stock compensation related to restricted stock vesting and retirement savings plan contributions	490	--	6,995	--	--	--	6,995
Purchases of treasury stock and buyback of shares for taxes	(105)	--	--	--	(1,187)	--	(1,187)
Issuance of stock for acquisitions	1,686	2	15,570	--	--	--	15,572

Net income	--	--	--	--	--	11,731	11,731
Foreign currency translation adjustment	--	--	--	9	--	--	9
Balance at September 30, 2012	30,846	$ 38	$ 272,232	$ (270)	$ (56,182)	$ 17,073	$ 232,891

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
OPERATING ACTIVITIES		
Net income	$ 11,731	$ 8,026
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	1,590	1,207
Amortization	5,664	4,663
Deferred income taxes	243	1,251
Non-cash stock compensation and retirement savings plan contributions	6,995	6,760
Tax benefit from stock option exercises and restricted stock vesting	(781)	(1,554)
Adjustment to fair value of contingent consideration for purchase of business	435	852
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(9,161)	(9,310)
Other assets	1,510	(2,379)
Accounts payable	1,768	(2,532)
Other liabilities	855	(5,111)
Net cash provided by operating activities	20,849	1,873
INVESTING ACTIVITIES		
Proceeds from maturity of investments	--	13,555
Purchase of property and equipment	(1,391)	(2,393)
Capitalization of software developed for internal use	(107)	(111)
Purchase of business and related costs	(36,412)	(19,020)
Net cash used in investing activities	(37,910)	(7,969)
FINANCING ACTIVITIES		
Payment of credit facility financing fees	--	(299)
Proceeds from line of credit	116,100	14,000
Payments on line of credit	(104,600)	(14,000)
Payment of contingent consideration for purchase of business	(425)	--
Tax benefit on stock option exercises and restricted stock vesting	781	1,554
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	134	3,605
Purchase of treasury stock	(605)	(9,525)
	(582)	--

Remittance of taxes withheld as part of a net share settlement of restricted stock vesting		
Net cash provided by (used in) financing activities	10,803	(4,665)
Effect of exchange rate on cash and cash equivalents	7	13
Change in cash and cash equivalents	(6,251)	(10,748)
Cash and cash equivalents at beginning of period	9,732	12,707
Cash and cash equivalents at end of period	$ 3,481	$ 1,959
Supplemental disclosures:		
Cash paid for income taxes	$ 6,071	$ 5,691
Non-cash activity:		
Stock issued for purchase of business	$ 15,572	$ 6,838
Estimated fair value of contingent consideration for purchase of business	$ 1,474	$ 2,206

See accompanying notes to interim unaudited condensed consolidated financial statements.

PERFICIENT, INC.

NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

1. Basis of Presentation

The accompanying interim unaudited condensed consolidated financial statements of Perficient, Inc. (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States and are presented in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) applicable to interim financial information. Accordingly, certain footnote disclosures have been condensed or omitted. In the opinion of management, the interim unaudited condensed consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. These financial statements should be read in conjunction with the Company’s consolidated financial statements and notes thereto filed with the SEC in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the three and nine months ended September 30, 2012 may not be indicative of the results for the full fiscal year ending December 31, 2012.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

3. Stock-Based Compensation

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

Stock Award Plans

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

Stock-based compensation cost recognized for the three and nine months ended September 30, 2012 was approximately $2.5 million and $7.0 million, respectively, which included $0.4 million and $1.1 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized for the three and nine months ended September 30, 2012 were approximately $0.8 million and $2.3 million, respectively. Stock-based compensation cost recognized for the three and nine months ended September 30, 2011 was approximately $2.4 million and $6.8 million, respectively, which included $0.3 million and $0.8 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized for the three and nine months ended September 30, 2011 were approximately $0.8 million and $2.2 million, respectively. As of September 30, 2012, there was $13.6 million of total unrecognized compensation cost related to non-vested stock-based awards. This cost is expected to be recognized over a weighted-average period of two years.

Stock option activity for the nine months ended September 30, 2012 was as follows (in thousands, except exercise price information):

	Shares	Range of Exercise Prices	Weighted-Average Exercise Price
Options outstanding at January 1, 2012	358	$ 0.03 – 9.19	$ 4.61
Options exercised	(25)	0.03 – 7.48	2.23
Options canceled	(9)	1.15 – 4.40	1.45
Options outstanding at September 30, 2012	324	0.50 – 9.19	4.88
Options vested at September 30, 2012	324	0.50 – 9.19	4.88

Restricted stock activity for the nine months ended September 30, 2012 was as follows (in thousands, except fair value information):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2012	2,043	$ 9.16
Awards granted	413	11.78
Awards vested	(396)	9.37
Awards forfeited	(132)	8.86
Restricted stock awards outstanding at September 30, 2012	1,928	$ 9.68

4. Net Income per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$ 5,142	$ 3,466	$ 11,731	$ 8,026
Basic:				
Weighted-average shares of common stock outstanding	30,021	27,744	29,273	27,679
Shares used in computing basic net income per share	30,021	27,744	29,273	27,679
Effect of dilutive securities:				
Stock options	190	228	201	313
Warrants (1)	--	6	--	7
Restricted stock subject to vesting	662	548	619	592
Contingently issuable shares (2)	104	467	107	156
Shares issuable for acquisition consideration (3)	697	525	644	307
Shares used in computing diluted net income per share	31,674	29,518	30,844	29,054
Basic net income per share	$ 0.17	$ 0.12	$ 0.40	$ 0.29

Diluted net income per share	$ 0.16	$ 0.12	$ 0.38	$ 0.28
Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share	14	519	14	319

(1) All outstanding warrants expired on December 30, 2011.
(2) Represents the Company's estimate of shares to be issued to Exervio Consulting, Inc. ("Exervio") pursuant to the Asset Purchase Agreement. Refer to Note 7 for further discussion.
(3) Represents the shares held in escrow pursuant to the Agreements and Plans of Merger with speakTECH and Northridge Systems, Inc. ("Northridge") and pursuant to the Asset Purchase Agreements with PointBridge Solutions, LLC ("PointBridge") and Nascent Systems, LP ("Nascent") as part of the consideration. These shares were not included in the calculation of basic net income per share due to the uncertainty of their ultimate status.

5. Commitments and Contingencies

The Company leases office space and certain equipment under various operating lease agreements. The Company has the option to extend the term of certain lease agreements. Future minimum commitments under these lease agreements as of September 30, 2012 are as follows (in thousands):

	Operating Leases
2012 remaining	$ 961
2013	3,153
2014	2,542
2015	2,005
2016	1,907
Thereafter	2,227
Total minimum lease payments	$ 12,795

6. Balance Sheet Components

	September 30, 2012	December 31, 2011
	(in thousands)	
Accounts receivable:		
Accounts receivable	$ 54,346	$ 44,438
Unbilled revenues	24,885	17,511
Allowance for doubtful accounts	(1,140)	(1,057)
Total	$ 78,091	$ 60,892

Property and equipment:		
Computer hardware (useful life of 3 years)	$ 6,808	$ 5,710
Furniture and fixtures (useful life of 5 years)	1,907	1,474
Leasehold improvements (useful life of 5 years)	1,711	1,801
Software (useful life of 1 year)	1,858	1,494
Less: Accumulated depreciation	(7,758)	(6,989)

Total	$ 4,526	$ 3,490

Other current liabilities:		
Accrued variable compensation	$ 7,963	$ 6,998
Estimated fair value of contingent consideration liability (Note 7)	1,474	2,377
Accrued subcontractor fees	2,218	2,392
Payroll related costs	2,877	2,504
Accrued medical claims expense	1,122	902
Accrued reimbursable expense	1,159	651
Deferred revenues	1,556	1,041
Acquired liabilities	124	239
Other current liabilities	2,185	1,379
Total	$ 20,678	$ 18,483

7. Business Combinations

Acquisition of Exervio

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

The Company estimated the total allocable purchase price consideration to be $11.2 million. The purchase price was comprised of $6.5 million in cash paid and $2.8 million of Company common stock issued at closing, increased by $1.9 million representing the fair value estimate of additional earnings-based contingent consideration, which was partially realized by the Exervio selling shareholders 12 months after the closing date of the acquisition, and the remainder potentially realized 18 months after the closing date of the acquisition. Of the earnings-based contingent consideration, 25% will be paid in cash and 75% will be issued in stock to the Exervio selling shareholders. The contingent consideration is recorded in "Other current liabilities" on the Condensed Consolidated Balance Sheet as of September 30, 2012. The Company incurred approximately $0.6 million in transaction costs, which were expensed when incurred.

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

Acquired tangible assets	$	2.7
Acquired intangible assets		4.5
Liabilities assumed		(1.2)
Goodwill		5.2
Total purchase price	$	11.2

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

Acquisition of JCB Partners, LLC. ("JCB")

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

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

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

Acquired tangible assets	$	3.1
Acquired intangible assets		3.0
Liabilities assumed		(1.2)
Goodwill		11.7
Total purchase price	$	16.6

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

Acquisition of PointBridge

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

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

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

Acquired tangible assets	$	5.6
Acquired intangible assets		6.2
Liabilities assumed		(1.1)
Goodwill		9.8
Total purchase price	$	20.5

The Company estimated that the intangible assets acquired have useful lives of 11 months to five years.

The amounts above represent the fair value estimates as of September 30, 2012 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

Acquisition of Nascent

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

The Company has initially estimated the total allocable purchase price consideration to be $16.5 million. The initial purchase price estimate is comprised of $11.3 million in cash paid and $5.2 million of Company common stock issued at closing. The Company incurred approximately $0.6 million in transaction costs, which were expensed when incurred.

The Company 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	$	3.9
Acquired intangible assets		4.4
Liabilities assumed		(1.0)
Goodwill		9.2
Total purchase price	$	16.5

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

The amounts above represent the fair value estimates as of September 30, 2012 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

Acquisition of Northridge

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

The Company has initially estimated the total allocable purchase price consideration to be $13.9 million. The initial purchase price estimate is comprised of $10.7 million in cash paid and $3.2 million of Company common stock issued at closing. The Company incurred approximately $0.6 million in transaction costs, which were expensed when incurred.

The Company 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	$ 3.5
Acquired intangible assets	4.1
Liabilities assumed	(3.1)
Goodwill	9.4
Total purchase price	$ 13.9

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

The amounts above represent the fair value estimates as of September 30, 2012 and are subject to subsequent adjustment as the Company obtains additional information during the measurement period and finalizes its fair value estimates. Any subsequent adjustments to these fair value estimates occurring during the measurement period will result in an adjustment to goodwill or income, as applicable.

The results of the PointBridge, Nascent, and Northridge operations have been included in the Company's condensed consolidated financial statements since the respective acquisition dates.

The aggregate amounts of revenue and net income of PointBridge, Nascent, and Northridge included in the Company's Condensed Consolidated Statements of Operations from the acquisition date to September 30, 2012 are as follows (in thousands):

	Acquisition Date to September 30, 2012
Revenues	$ 21,297
Net income	$ 1,467

Pro-forma Results of Operations (Unaudited)

The following presents the unaudited pro-forma combined results of operations of the Company with PointBridge, Nascent, and Northridge for the nine months ended September 30, 2012 and Exervio, JCB, PointBridge, Nascent, and Northridge for the nine months ended September 30, 2011, after giving effect to certain pro-forma adjustments related to the amortization of acquired intangible assets and assuming PointBridge, Nascent, and Northridge were acquired as of the beginning of 2011 and Exervio and JCB were acquired as of the beginning of 2010. These unaudited pro-forma results are presented in compliance with the adoption of Accounting Standards Update (“ASU”) 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations, and are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2011 or January 1, 2010 or of future results of operations of the consolidated entities (in thousands):

	September 30,	
	2012	2011
Revenues	$ 259,098	$ 237,322
Net income	$ 13,832	$ 10,188
Basic net income per share	$ 0.46	$ 0.35
Diluted net income per share	$ 0.45	$ 0.33
Shares used in computing basic net income per share	29,953	28,845
Shares used in computing dilute net income per share	30,848	30,640

8. Goodwill and Intangible Assets

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

Other intangible assets include customer relationships, non-compete arrangements, 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 seven months to eight years. Amortization of the intangible assets is considered an operating expense and is included in "Amortization" in the accompanying Condensed Consolidated Statements of Operations. The Company periodically reviews the estimated useful lives of its identifiable intangible assets, taking into consideration any events or circumstances that might result in a lack of recoverability or revised useful life.

Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2012 are as follows (in thousands):

Balance at December 31, 2011	$ 132,038
Preliminary purchase price allocation for acquisitions (Note 7)	28,400
Purchase accounting adjustments	(239)
Balance at September 30, 2012	$ 160,199

Intangible Assets with Definite Lives

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

	September 30, 2012			December 31, 2011		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer relationships	$ 23,842	$ (7,002)	$ 16,840	$ 20,713	$ (11,976)	$ 8,737
Non-compete agreements	1,156	(353)	803	1,073	(309)	764
Customer backlog	1,410	(833)	577	--	--	--
Trade name	265	(155)	110	152	(84)	68
Internally developed software	1,692	(614)	1,078	1,036	(477)	559

Total	$ 28,365	$ (8,957)	$ 19,408	$ 22,974	$ (12,846)	$ 10,128

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

Customer relationships	3 – 8 years
Non-compete agreements	3 – 5 years
Internally developed software	3 – 5 years
Trade name	9 months – 3 years
Customer backlog	7 – 11 months

9. Line of Credit

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

All outstanding amounts owed under the Credit Agreement become due and payable no later than the final maturity date of May 23, 2015; thus all outstanding amounts are classified as long-term as of September 30, 2012. Borrowings under the credit facility bear interest at the Company's option of SVB's prime rate (4.00% on September 30, 2012) plus a margin ranging from 0.00% to 0.50% or one-month LIBOR (0.214% on September 30, 2012) plus a margin ranging from 2.50% to 3.00%. The additional margin amount is dependent on the level of outstanding borrowings. As of September 30, 2012, the Company had $38.5 million of available borrowing capacity. An annual commitment fee of 0.30% is incurred on the unused portion of the line of credit.