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PERFICIENT INC  
Form 10-Q  
November 05, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2015

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

555 Maryville University Drive  
Suite 600  
Saint Louis, Missouri 63141  
(Address of principal executive offices)  
(314) 529-3600  
(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 30, 2015, there were 35,321,578 shares of Common Stock outstanding.

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TABLE OF CONTENTS

Part I. Financial Information	1
Item 1. Financial Statements	2
Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014	2
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2015 and 2014	3
Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2015 and 2014	4
Condensed Consolidated Statement of Stockholders' Equity for the Nine Months Ended September 30, 2015	5
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2015 and 2014	6
Notes to Interim Unaudited Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	22
Item 4. Controls and Procedures	22
Part II. Other Information	23
Item 1A. Risk Factors	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 5. Other Information	23
Item 6. Exhibits	23
Signatures	245

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PART I. FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

This discussion is not exhaustive, but is designed to highlight important factors that may impact our forward-looking statements. Because the factors referred to above, as well as the statements included under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 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," or the "Company") are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that the Company or any persons acting on our behalf may issue.

## Item 1. Financial Statements

Perficient, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

	September 30, 2015	December 31, 2014
	(In thousands, except share and per share information)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$8,692	\$ 10,935
Accounts receivable, net	111,894	113,928
Prepaid expenses	3,745	2,476
Other current assets	3,261	4,679
Total current assets	127,592	132,018
Property and equipment, net	8,040	7,966
Goodwill	259,140	236,130
Intangible assets, net	52,221	46,105
Other non-current assets	3,829	3,823
Total assets	\$450,822	\$426,042
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$13,768	\$22,035
Other current liabilities	27,884	33,028
Total current liabilities	41,652	55,063
Long-term debt	61,000	54,000
Other non-current liabilities	11,832	12,251
Total liabilities	114,484	121,314
Stockholders' equity:		
Common stock (par value \$0.001 per share; 50,000,000 shares authorized; 44,560,497 shares issued and 33,911,347 shares outstanding as of September 30, 2015; 43,174,676 shares issued and 32,854,802 shares outstanding as of December 31, 2014)	44	43
Additional paid-in capital	358,048	334,645
Accumulated other comprehensive loss	(1,398 )	(651 )
Treasury stock, at cost (10,649,150 shares as of September 30, 2015; 10,319,874 shares as of December 31, 2014)	(101,837)	(95,353 )
Retained earnings	81,481	66,044
Total stockholders' equity	336,338	304,728
Total liabilities and stockholders' equity	\$450,822	\$426,042

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(In thousands, except per share information)			
Revenues				
Services	\$105,351	\$99,975	\$301,166	\$286,780
Software and hardware	11,520	12,192	27,490	31,108
Reimbursable expenses	4,038	4,804	11,315	12,962
Total revenues	120,909	116,971	339,971	330,850
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Project personnel costs	64,465	61,442	188,901	179,068
Software and hardware costs	10,195	10,438	23,559	27,333
Reimbursable expenses	4,038	4,804	11,315	12,962
Other project related expenses	1,809	750	4,833	2,644
Total cost of revenues	80,507	77,434	228,608	222,007
Gross margin	40,402	39,537	111,363	108,843
Selling, general and administrative	23,715	22,239	72,571	65,354
Depreciation	1,148	932	3,322	2,713
Amortization	3,357	4,045	10,569	10,511
Acquisition costs	488	(74 )	509	2,495
Adjustment to fair value of contingent consideration	99	-	273	(1,463 )
Income from operations	11,595	12,395	24,119	29,233
Net interest expense	(501 )	(462 )	(1,602 )	(1,055 )
Net other (expense) income	(29 )	10	(300 )	79
Income before income taxes	11,065	11,943	22,217	28,257
Provision for income taxes	3,691	4,637	6,780	11,519
Net income	\$7,374	\$7,306	\$15,437	\$16,738
Basic net income per share	\$0.22	\$0.23	\$0.46	\$0.53
Diluted net income per share	\$0.22	\$0.22	\$0.45	\$0.51
Shares used in computing basic net income per share	33,498	32,118	33,292	31,470
Shares used in computing diluted net income per share	34,187	33,329	34,163	33,076

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	2014		2014	
	(In thousands)		(In thousands)	
Net income	\$7,374	\$7,306	\$15,437	\$16,738
Other comprehensive income (loss), net of reclassification adjustments:				
Foreign currency translation adjustment	(595 )	(99 )	(747 )	(128 )
Comprehensive income	\$6,779	\$7,207	\$14,690	\$16,610

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.  
Condensed Consolidated Statement of Stockholders' Equity  
Nine Months Ended September 30, 2015  
(Unaudited)  
(In thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensiv Loss	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2014	32,855	\$ 43	\$ 334,645	\$ (651 )	\$(95,353 )	\$ 66,044	\$ 304,728
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	23	--	284	--	--	--	284
Net tax benefit from stock option exercises and restricted stock vesting	--	--	820	--	--	--	820
Share-based compensation	529	--	9,807	--	--	--	9,807
Purchase of treasury stock and buyback of shares for taxes	(329 )	--	--	--	(6,484 )	--	(6,484 )
Issuance of stock for acquisitions	833	1	12,492	--	--	--	12,493
Net income	--	--	--	--	--	15,437	15,437
Foreign currency translation adjustment	--	--	--	(747 )	--	--	(747 )
Balance at September 30, 2015	33,911	\$ 44	\$ 358,048	\$ (1,398 )	\$(101,837)	\$ 81,481	\$ 336,338

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
<b>OPERATING ACTIVITIES</b>		
Net income	\$15,437	\$16,738
Adjustments to reconcile net income to net cash used in operations:		
Depreciation	3,322	2,713
Amortization	10,569	10,511
Deferred income taxes	(351 )	1,957
Non-cash stock compensation and retirement savings plan contributions	9,807	9,433
Tax benefit from stock option exercises and restricted stock vesting	(974 )	(2,052 )
Adjustment to fair value of contingent consideration for purchase of business	273	(1,463 )
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	7,830	(30,713 )
Other assets	2,365	3,996
Accounts payable	(8,267 )	5,800
Other liabilities	(13,759 )	(16,295 )
Net cash provided by operating activities	26,252	625
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,462 )	(2,632 )
Capitalization of software developed for internal use	(819 )	(2,719 )
Purchase of business, net of cash acquired	(26,605 )	(46,534 )
Net cash used in investing activities	(29,886 )	(51,885 )
<b>FINANCING ACTIVITIES</b>		
Proceeds from line of credit	201,500	210,600
Payments on line of credit	(194,500)	(154,800)
Payments for credit facility financing fees	(193 )	-
Payment of contingent consideration for purchase of business	-	(1,197 )
Tax benefit on stock option exercises and restricted stock vesting	974	2,052
Proceeds from the exercise of stock options and sales of stock through the Employee Stock Purchase Plan	284	1,373
Purchases of treasury stock	(2,840 )	(3,195 )
Remittance of taxes withheld as part of a net share settlement of restricted stock vesting	(3,644 )	(5,155 )
Net cash provided by financing activities	1,581	49,678
Effect of exchange rate on cash and cash equivalents	(190 )	(25 )
Change in cash and cash equivalents	(2,243 )	(1,607 )
Cash and cash equivalents at beginning of period	10,935	7,018
Cash and cash equivalents at end of period	\$8,692	\$5,411
Supplemental disclosures:		
Cash paid for income taxes	\$4,835	\$6,824
Cash paid for interest	\$1,487	\$833

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Non-cash activity:

Stock issued for purchase of business	\$12,493	\$19,174
Stock issued for settlement of contingent consideration for purchase of business	\$-	\$730
Estimated fair value of contingent consideration for purchase of business	\$3,218	\$127
Current liability assumed for prepaid asset	\$761	\$-

See accompanying notes to interim unaudited condensed consolidated financial statements.

6

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PERFICIENT, INC.

NOTES TO INTERIM UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2015

## 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 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, 2014. Operating results for the three and nine months ended September 30, 2015 may not be indicative of the results for the full fiscal year ending December 31, 2015.

Certain prior period financial statement amounts have been reclassified to conform to current period presentation. This reclassification primarily related to certain costs being reclassified from project personnel costs to other project related expenses within total cost of revenues in the condensed consolidated statement of operations.

## 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 has concluded that the separation criteria are met, then it accounts for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of the Company's multiple element arrangements meet these criteria and are accounted for separately, with the arrangement consideration allocated among the deliverables using vendor-specific objective evidence of the selling price. As a result, the Company generally recognizes software and hardware sales upon delivery to the customer and services consistent with the policies described herein.

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

7

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

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

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

### 3. Stock-Based Compensation

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

#### Stock Award Plans

The Company's 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, not to exceed a total of 5.0 million shares, to eligible individuals. The Compensation Committee of the Board of Directors administers the Incentive Plan and determines the terms of all stock awards made under the Incentive Plan.

Stock-based compensation cost recognized for the three and nine months ended September 30, 2015 was approximately \$3.2 million and \$10.1 million, respectively, which included \$0.6 million and \$1.7 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.1 million and \$3.2 million for the three and nine months ended September 30, 2015, respectively. Stock-based compensation cost recognized for the three and nine months ended September 30, 2014 was approximately \$3.4 million and \$10.0 million, respectively, which included \$0.6 and \$1.6 million, respectively, of expense for retirement savings plan contributions. The associated current and future income tax benefits recognized were \$1.0 million and \$3.1 million for the three and nine months ended September 30, 2014, respectively. As of September 30, 2015, there was \$14.5 million of total unrecognized compensation cost related to non-vested share-based awards and other incentive 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, 2015 was as follows (shares in thousands):

	Shares	Weighted-Average Exercise Price
Options outstanding at December 31, 2014	12	\$ 7.48
Options exercised	(12 )	7.48
Options outstanding at September 30, 2015	-	-
Options vested at September 30, 2015	-	\$ -

Restricted stock activity for the nine months ended September 30, 2015 was as follows (shares in thousands):

	Shares	Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at December 31, 2014	1,506	\$ 15.39
Awards granted	345	19.84
Awards vested	(438 )	13.39
Awards forfeited	(151 )	15.70
Restricted stock awards outstanding at September 30, 2015	1,262	\$ 17.19

8

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## 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,	
	2015	2014	2015	2014
Net income	\$7,374	\$7,306	\$15,437	\$16,738
Basic:				
Weighted-average shares of common stock outstanding	33,498	32,118	33,292	31,470
Shares used in computing basic net income per share	33,498	32,118	33,292	31,470
Effect of dilutive securities:				
Stock options	-	8	1	78
Restricted stock subject to vesting	368	528	409	571
Contingently issuable shares (1)	-	14	-	17
Shares issuable for acquisition consideration (2)	321	661	461	940
Shares used in computing diluted net income per share	34,187	33,329	34,163	33,076
Basic net income per share	\$0.22	\$0.23	\$0.46	\$0.53
Diluted net income per share	\$0.22	\$0.22	\$0.45	\$0.51
Anti-dilutive options and restricted stock not included in the calculation of diluted net income per share	3	-	37	97

(1) For the three and nine months ended September 30, 2014, this represents the Company's estimate of shares to be issued to Clear Task, Inc. ("Clear Task") pursuant to the Asset Purchase Agreement.

For the three and nine months ended September 30, 2015, this represents the shares held in escrow pursuant to: (i) the Agreement and Plan of Merger with ForwardThink Group Inc. ("ForwardThink"); (ii) the Asset Purchase Agreement with BioPharm Systems, Inc. ("BioPharm"); (iii) the Asset Purchase Agreement with Trifecta Technologies, Inc. and Trifecta Technologies Canada, Limited (together "Trifecta"); (iv) the Asset Purchase Agreement with Zeon (as defined below); and (v) the Stock Purchase Agreement for Market Street Solutions, Inc. ("Market Street") as part of the consideration. For the three and nine months ended September 30, 2014, this represents the shares held in escrow pursuant to: (i) the Agreement and Plan of Merger with Northridge Systems, Inc.; (ii) the Agreement and Plan of Merger with TriTek Solutions, Inc.; (iii) the Asset Purchase Agreement with Clear Task; (iv) the Asset Purchase Agreement with CoreMatrix Systems, LLC; (v) the Agreement and Plan of Merger with ForwardThink; (vi) the Asset Purchase Agreement with BioPharm; and (vii) the Asset Purchase Agreement with Trifecta as part of the consideration.

## 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, 2015 were as follows (in thousands):

	Operating Leases
2015 remaining	\$ 1,438
2016	5,704

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2017	4,863
2018	3,378
2019	2,705
2020 and thereafter	4,220
Total minimum lease payments	\$ 22,308

9

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6. Balance Sheet Components

	September	December
	30,	31,
	2015	2014
	(in thousands)	

Accounts receivable:		
Accounts receivable	\$ 74,716	