PERFICIENT INC
Form 10-Q
November 08, 2006

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, 2006

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.)

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. þ Yes o 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 filer o Accelerated filer þ Non-accelerated filer 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 25, 2006, there were 27,168,257 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, 2006	December 31, 2005
ASSETS	(In thousands)	
Current assets:		
Cash and cash equivalents	$ 65	$ 5,096
Accounts receivable, net	37,916	23,251
Other current assets:		
Prepaid expenses	1,783	887
Other current assets	2,773	1,530
Total other current assets	4,556	2,417
Total current assets	42,537	30,764
Property and equipment, net	1,584	960
Goodwill	68,946	46,263
Intangible assets, net	12,973	5,768
Other non-current assets	1,016	1,180
Total assets	$ 127,056	$ 84,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 2,260	$ 3,774
Current portion of long-term debt	1,410	1,337
Other current liabilities	16,286	8,331
Note payable to related parties	--	244
Total current liabilities	19,956	13,686
Long-term borrowings, net of current portion	5,472	5,338
Deferred taxes	1,004	--
Total liabilities	26,432	19,024
Stockholders' equity:		
Common stock (par value $.001 per share; 50,000,000 shares authorized and		
26,270,076 shares issued and outstanding as of September 30, 2006;		
23,294,509 shares issued and outstanding as of December 31, 2005)	26	23
Additional paid-in capital	143,055	115,120
Accumulated other comprehensive loss	(105)	(87)
Accumulated deficit	(42,352)	(49,145)
Total stockholders' equity	100,624	65,911
Total liabilities and stockholders' equity	$ 127,056	$ 84,935

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
Revenues				
Services	$ 40,219	$ 23,157	$ 98,577	$ 60,049
Software	1,532	1,918	6,800	4,718
Reimbursable expenses	2,543	1,048	6,071	2,741
Total revenues	44,294	26,123	111,448	67,508
Cost of revenues (exclusive of depreciation and amortization, shown separately below)				
Project personnel costs	24,190	13,771	59,911	36,319
Software costs	1,247	1,503	5,673	3,881
Reimbursable expenses	2,543	1,048	6,071	2,741
Other project related expenses	460	502	1,474	1,265
			73,073	
Total cost of revenues	28,440	16,824	73,129	44,206
Gross margin	15,854	9,299	38,319	23,302
Selling, general and administrative	9,539	5,101	23,414	12,926
Depreciation	264	149	647	459
Amortization of intangible assets	1,211	494	2,335	1,074
Total operating expenses	11,014	5,744	26,396	14,459
Income from operations	4,840	3,555	11,923	8,843
Interest income	45	3	76	11
Interest expense	(217)	(204)	(463)	(438)
Other	7	5	72	13
Income before income taxes	4,675	3,359	11,608	8,429
Provision for income taxes	1,841	1,293	4,815	3,248
Net income	$ 2,834	$ 2,066	$ 6,793	$ 5,181
Basic net income per share	$ 0.11	$ 0.09	$ 0.28	$ 0.24
Diluted net income per share	$ 0.10	$ 0.08	$ 0.25	$ 0.21
Shares used in computing basic net income per share	25,618	22,418	24,525	21,703

Shares used in computing diluted net income per share	28,056	25,504	27,156	25,034

See accompanying notes to interim unaudited condensed consolidated financial statements.

Perficient, Inc.
Condensed Consolidated Statement of Stockholders' Equity
Nine Months Ended September 30, 2006
(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, 2005	23,295	$ 23	$ 115,120	$ (87)	$ (49,145)	$ 65,911
Bay Street, Insolexen, and EGG acquisitions	1,499	2	17,989	--	--	17,991
Warrants exercised	145	--	146	--	--	146
Stock options exercised	1,324	1	3,133	--	--	3,134
Purchases of stock from Employee Stock Purchase Plan	4	--	57	--	--	57
Tax benefit of stock option exercises	--	--	4,383	--	--	4,383
Stock compensation	--	--	2,227	--	--	2,227
Vested stock compensation	3	--	--	--	--	--
Foreign currency translation adjustment	--	--	--	(18)	--	(18)
Net income	--	--	--	--	6,793	6,793
Total comprehensive income	--	--	--	--	--	6,775
Balance at September 30, 2006	26,270	$ 26	$ 143,055	$ (105)	$ (42,352)	$ 100,624

See accompanying notes to interim unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2006	2005
	(In thousands)	
OPERATING ACTIVITIES		
Net income	$ 6,793	$ 5,181
Adjustments to reconcile net income to net cash provided by (used in) operations:		
Depreciation	647	459
Amortization of intangibles	2,335	1,074
Non-cash stock compensation	2,227	191
Non-cash interest expense	6	19
Tax benefit on stock options	452	--
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(4,993)	(3,013)
Other assets	(709)	(1,102)
Accounts payable	(1,515)	(4,476)
Other liabilities	(2,744)	1,455
Net cash provided by (used in) operating activities	2,499	(212)
INVESTING ACTIVITIES		
Purchase of property and equipment	(995)	(548)
Capitalization of software developed for internal use	(59)	(484)
Purchase of businesses, net of cash acquired	(13,677)	(9,704)
Payments on Javelin Notes	(250)	(250)
Net cash used in investing activities	(14,981)	(10,986)
FINANCING ACTIVITIES		
Proceeds from short-term borrowings	28,600	12,000
Payments on short-term borrowings	(27,400)	(2,000)
Payments on long-term debt	(994)	(815)
Deferred offering costs	--	(943)
Tax benefit on stock options	3,931	946
Proceeds from exercise of stock options and Employee Stock Purchase Plan	3,191	1,290
Proceeds from exercise of warrants	146	107
Net cash provided by financing activities	7,474	10,585
Effect of exchange rate on cash and cash equivalents	(23)	(36)
Change in cash and cash equivalents	(5,031)	(649)
Cash and cash equivalents at beginning of period	5,096	3,906
Cash and cash equivalents at end of period	$ 65	$ 3,257
Supplemental disclosures:		
Interest paid	$ 465	$ 394
Cash paid for income taxes	$ 3,111	$ 1,585

Non cash activities:				
Stock issued for Purchase of Business	$	17,991	$	8,864
Change in goodwill	$	533	$	(493)

See accompanying notes to interim unaudited condensed consolidated financial statements.

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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 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 Securities and Exchange Commission in the Company's Annual Report on Form 10-K for the year ended December 31, 2005, as amended. Operating results for the three months and nine months ended September 30, 2006 may not be indicative of the results for the full fiscal year ending December 31, 2006. Certain prior year balances have been reclassified to conform to current period presentation.

2. Summary of Significant Accounting Policies

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (“SFAS”) No. 123 (revised 2004), *Share-Based Payment* (“SFAS No. 123R”). This Statement requires that effective January 1, 2006, the costs of employee share-based payments be measured at fair value on the awards' grant date and recognized in the financial statements over the requisite service period.

Prior to January 1, 2006, the Company accounted for share-based compensation using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and elected the disclosure option of SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure*. SFAS No. 123 required that companies either recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value, or provide pro forma disclosure of net income and earnings per share in the notes to the financial statements. Accordingly, the Company measured compensation expense for stock options as the excess, if any, of the estimated fair market value of the Company's stock at the date of grant over the exercise price. The Company has elected to provide pro forma effects of this measurement in a footnote to its financial statements. Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective application transition method (see Note 3).

Revenue Recognition

Revenues are primarily derived from professional services provided on a time and materials basis. For time and material projects, revenue is recognized and billed by multiplying the number of hours expended in the performance of the project by the established billing rates. For fixed fee projects, revenue is generally recognized using the proportionate performance method based on the ratio of hours expended to total estimated hours. Provisions for estimated losses on incomplete projects are made on a project-by-project basis and are recognized in the period in which such losses are determined. Billings in excess of costs plus earnings are classified as deferred revenues. On many projects the Company is also reimbursed for out-of-pocket expenses. These reimbursements are included as a component of revenue. Revenue from software sales is recorded on a gross basis based on the Company's role as principal in the transaction. In the event the Company does not meet the requirements to be considered a principal in the software sale transaction, the revenue would be recorded on a net basis.

Revenue is recognized when the following criteria are met: (1) persuasive evidence of the customer arrangement exists, (2) fees are fixed and determinable, (3) acceptance has occurred, and (4) collectibility is deemed probable. We determine the fair value of each element in the arrangement based on vendor-specific objective evidence ("VSOE") of fair value. VSOE of fair value is based upon the normal pricing and discounting practices for those products and services when sold separately. We follow very specific and detailed guidelines in determining revenues; however, certain judgments and estimates are made and used to determine revenue recognized in any accounting period. Material differences may result in the amount and timing of revenue recognized for any period if different conditions were to prevail.

Revenue from internally developed software which is allocated to maintenance and support is recognized ratably over the maintenance term (typically one year).

Revenue allocated to training and consulting service elements is recognized as the services are performed. Our consulting services are not essential to the functionality of our products as such services are available from other vendors.

Intangible Assets

In a business combination, goodwill represents the excess purchase price over the fair value of net assets acquired, or net liabilities assumed. As required, the Company performs an annual impairment test of goodwill. The Company evaluates goodwill at the enterprise level as of October 1 each year or more frequently if events or changes in circumstances indicate that goodwill might be impaired. The impairment test utilizes a two-stepped 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. No impairment was indicated using data as of October 1, 2005, and as of September 30, 2006, there were no events or changes in circumstances which would indicate that goodwill might be impaired.

Other intangible assets, including amounts allocated to customer relationships, customer backlog, non-compete agreements, and internally developed software, are being amortized over the assets' estimated useful lives using the straight-line method. Estimated useful lives range from four months to eight years. Amortization of intangible assets is considered operating expense and is included in “Amortization of intangible assets” in the accompanying unaudited interim condensed consolidated statements of operations. The Company periodically reviews the estimated useful lives of its other intangible assets, taking into consideration any events or circumstances that might result in a lack of recoverability or revised useful life. The Company also assesses potential impairments to intangible assets on an annual basis or when there is evidence that events or changes in circumstances impacted the carrying amount of an asset. The Company’s judgments regarding the existence of impairment indicators and future cash flows related to intangible assets are based on operational performance of the businesses, market conditions and other factors.

Long-lived assets held and used are reviewed for impairment whenever events or changes in circumstances indicate that their net book value may not be entirely recoverable. When such factors and circumstances exist, the Company compares the projected undiscounted future cash flows associated with the related asset or group of assets over their estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets and is recorded in the period in which the determination was made. Management has determined that no impairment exists as of September 30, 2006.

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.

3. Stock-Based Compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective application transition method. Under this method, compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date is recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123. All new awards and awards that are modified, repurchased, or cancelled after the adoption date are accounted for under the provisions of SFAS No. 123R. Prior periods are not restated under this transition method. The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur, which was the Company's practice prior to the adoption of SFAS No. 123R.

Total share-based compensation cost recognized for the three months ended September 30, 2006 and 2005 was approximately $758,000 and $73,000, and the associated current and future income tax benefits recognized for the three months ended September 30, 2006 and 2005 were approximately $238,000 and $28,000. For the nine months ended September 30, 2006 and 2005, total share-based compensation cost recognized was approximately $2.2 million and $191,000, and the associated current and future income tax benefits recognized were approximately $566,000 and $73,000. As of September 30, 2006, there was $8.6 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 2.4 years.

Prior to the adoption of SFAS No. 123R, the Company accounted for employee stock-based compensation using the intrinsic value method prescribed by APB 25. As presented below, the Company applied the disclosure provisions of SFAS 123, as amended by SFAS 148, *Accounting for Stock-Based Compensation - Transition and Disclosure,* as if the fair value method had been applied. If this method had been used, the Company's net income and net income per share for the three and nine months ended September 30, 2005 would have been adjusted to the pro forma amounts below (in thousands except per share data):

		Three Months Ended September 30, 2005		Nine Months Ended September 30, 2005
Net income -- as reported	$	2,066	$	5,181
Total stock-based compensation costs, net of tax, included in the determination of net income as reported		45		118
The stock-based employee compensation cost, net of tax, that would have been included in the determination of net income if the fair value based method had been applied to all awards		(533)		(1,588)
Pro forma net income available to common stockholders	$	1,578	$	3,711
Earnings per share:				
Basic -- as reported	$	0.09	$	0.24
Basic -- pro forma	$	0.07	$	0.18
Diluted -- as reported	$	0.08	$	0.21
Diluted -- pro forma	$	0.06	$	0.15

Equity Incentive Plans

The Company did not grant any stock option awards during the nine months ended September 30, 2006. The fair value of options granted during the nine months ended September 30, 2005 was calculated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions: risk free interest rate of 3.61%; dividend yield of 0%; weighted-average expected life of options of 5 years; and a volatility factor of 1.384.

Stock option activity for the nine months ended September 30, 2006 was as follows (in thousands, except exercise price information):

	Shares		Range of Exercise Prices		Weighted-Average Exercise Price
Options outstanding at January 1, 2006	5,268	$	0.02 - $16.94	$	3.53
Options granted	--		--		--
Options exercised	(1,324)	$	0.02 - $12.13	$	2.43
Options canceled	(32)	$	1.01 - $13.25	$	5.95
Options outstanding at September 30, 2006	3,912	$	0.02 - $16.94	$	3.88
Options vested at September 30, 2006	2,466	$	0.02 - $16.94	$	3.33

Restricted stock activity for the nine months ended September 30, 2006 was as follows (in thousands, except fair value information):

	Shares		Weighted-Average Grant Date Fair Value
Restricted stock awards outstanding at January 1, 2006	614	$	7.69
Awards granted	59	$	12.98
Awards released	(2)	$	6.83
Awards canceled	(13)	$	8.01
Restricted stock awards outstanding at September 30, 2006	658	$	8.16

4. Warrants

The following table summarizes information regarding warrants outstanding and exercisable as of September 30, 2006 (in thousands, except exercise price information):

Exercise Price	Warrants Outstanding and Exercisable Warrants
$1.98	9
$1.98	**9**

5. 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,			
		2006		2005		2006		2005
Net income	$	2,834	$	2,066	$	6,793	$	5,181
Basic:								
Weighted-average shares of common stock outstanding		24,368		21,168		23,275		20,538
Weighted-average shares of common stock outstanding subject to contingency (i.e. restricted stock)		1,250		1,250		1,250		1,165
Shares used in computing basic net income per share		25,618		22,418		24,525		21,703
Effect of dilutive securities:								
Stock options		2,183		2,933		2,357		3,181
Warrants		46		153		96		150
Restricted stock subject to vesting		209		--		178		--
Shares used in computing diluted net income per share		28,056		25,504		27,156		25,034

Basic net income per share	$	0.11	$	0.09	$	0.28	$	0.24
Diluted net income per share	$	0.10	$	0.08	$	0.25	$	0.21

6. 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 (in thousands):

	Operating Leases
2006 remaining	$ 357
2007	1,258
2008	1,020
2009	912
2010	662
Thereafter	359
Total minimum lease payments	$ 4,568

The Company is required to maintain a letter of credit for $200,000 with Silicon Valley Bank to serve as collateral for an office space lease. This letter of credit with Silicon Valley Bank reduces the borrowings available under the Company's line of credit with Silicon Valley Bank. This letter of credit will remain in effect through October 2009.

7. Balance Sheet Components

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

	September 30, 2006	December 31, 2005
Accounts receivable	$ 25,333	$ 17,013
Unbilled revenue	12,875	6,581
Allowance for doubtful accounts	(292)	(343)
Total	$ 37,916	$ 23,251

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

	September 30, 2006	December 31, 2005
Income tax receivable	$ 282	$ 1,367
Other current assets	2,491	163
Total	$ 2,773	$ 1,530

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

	September 30, 2006	December 31, 2005
Accrued payroll related costs	$ 9,084	$ 4,028
Accrued subcontractor fees	1,944	1,842
Deferred revenue	1,709	1,084
Other accrued expenses	3,549	1,377

Total	$	16,286	$	8,331

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

	September 30, 2006	December 31, 2005
Computer Hardware & Software	$ 4,257	$ 3,182
Furniture & Fixtures	915	781
Leasehold Improvements	219	150
Gross Property & Equipment	5,391	4,113
Less: Accumulated Depreciation	(3,807)	(3,153)
Total	$ 1,584	$ 960

8. Comprehensive Income

The components of comprehensive income are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	$ 2,834	$ 2,066	$ 6,793	$ 5,181
Foreign currency translation adjustments	(11)	6	(18)	(23)
Total comprehensive net income	$ 2,823	$ 2,072	$ 6,775	$ 5,158

9. Business Combinations

Acquisition of iPath Solutions, Ltd.

On June 10, 2005, the Company acquired iPath Solutions, Ltd. ("iPath"), a privately held technology consulting company, for $9.9 million. The purchase price consists of $3.9 million in cash, $900,000 of liabilities repaid on behalf of iPath, transaction costs of $600,000, and 623,803 shares of the Company's common stock valued at approximately $7.24 per share (approximately $4.5 million worth of Company's common stock). The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate and an independent appraisal. The results of the iPath operations have been included in the Company's consolidated financial statements since June 10, 2005.

The purchase price allocation is as follows (in millions):

Intangibles:	
Customer relationships	$ 0.7
Customer backlog	0.2
Non-compete agreements	0.1
Goodwill	7.3
Tangible assets and liabilities acquired:	
Accounts receivable	1.6
Property and equipment	0.1
Accrued expenses	(0.1)
Net assets acquired	$ 9.9

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

Acquisition of Vivare, LP

On September 2, 2005, the Company acquired Vivare, LP (“Vivare”), a privately held technology consulting company, for $9.8 million. The purchase price consists of $4.9 million in cash, transaction costs of approximately $500,000, and 618,500 shares of the Company's common stock valued at approximately $7.03 per share (approximately $4.4 million worth of Company's common stock). The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate and an independent appraisal. The results of Vivare’s operations have been included in the Company's consolidated financial statements since September 2, 2005.

The purchase price allocation is as follows (in millions):

Intangibles:		
Customer relationships	$	1.0
Customer backlog		0.1
Non-compete agreements		0.1
Goodwill		6.8
Tangible assets acquired:		
Accounts receivable		1.7
Property and equipment		0.1
Net assets acquired	$	9.8

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

Acquisition of Bay Street Solutions, Inc.

On April 7, 2006, the Company acquired Bay Street Solutions, Inc. (“Bay Street”), a national customer relationship management consulting firm, for approximately $9.7 million. The purchase price consists of approximately $4.1 million in cash, transaction costs of $636,000, and 464,569 shares of the Company's common stock valued at approximately $12.18 per share (approximately $5.7 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately $630,000, as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate and an independent appraisal. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of Bay Street's operations have been included in the Company's interim consolidated financial statements since April 7, 2006.

The preliminary purchase price allocation is as follows (in millions):

Intangibles:		
Customer relationships	$	1.6
Customer backlog		0.2
Non-compete agreements		0.1
Goodwill		5.5

Tangible assets acquired:		
Accounts receivable		2.4
Other assets		0.7
Property and equipment		0.1
Accrued expenses		(0.9)
Net assets acquired	$	9.7

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

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Acquisition of Insolexen, Corp.

On May 31, 2006, the Company acquired Insolexen, Corp. ("Insolexen"), a business integration consulting firm, for approximately $15.0 million. The purchase price consists of approximately $7.7 million in cash, transaction costs of $695,000, and 522,944 shares of the Company's common stock valued at approximately $13.72 per share (approximately $7.2 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately $613,000, as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned at the enterprise level and is expected to be deductible for tax purposes. The purchase price was allocated to intangibles based on management's estimate and an independent appraisal. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of Insolexen's operations have been included in the Company's interim consolidated financial statements since May 31, 2006.

The preliminary purchase price allocation is as follows (in millions):

Intangibles:		
Customer relationships	$	2.8
Customer backlog		0.4
Non-compete agreements		0.1
Goodwill		10.4
Tangible assets and liabilities acquired:		
Accounts receivable		4.0
Other assets		2.1
Accrued expenses		(4.8)
Net assets acquired	$	15.0

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

Acquisition of the Energy, Government and General Business (EGG) division of Digital Consulting & Software Services, Inc.

On July 21, 2006, the Company acquired the Energy, Government and General Business ("EGG") division of Digital Consulting & Software Services, Inc., a systems integration consulting business, for approximately $13.2 million. The purchase price consists of approximately $6.4 million in cash, transaction costs of approximately $275,000, and 511,382 shares of the Company's common stock valued at approximately $12.71 per share (approximately $6.5 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately $92,000, as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Goodwill is assigned a